

State of Arizona
Senate
Forty-seventh Legislature
First Regular Session
2005

CHAPTER 278

SENATE BILL 1283

AN ACT

AMENDING SECTIONS 9-801, 9-806, 11-861, 28-5606, 28-5614, 41-1516, 41-2148, 42-5061, 42-5075, 42-5159, 42-12006, 42-15006, 43-1076 AND 43-1162, ARIZONA REVISED STATUTES; RELATING TO FORESTS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 9-801, Arizona Revised Statutes, is amended to
3 read:

4 9-801. Definitions

5 In this article, unless the context otherwise requires:

6 1. "Code" means a published compilation of rules or regulations
7 prepared by a technical trade association and includes any building code,
8 electrical wiring code, health or sanitation code, fire prevention code,
9 ~~urban-wildland~~ WILDLAND-URBAN interface code, inflammable liquids code, code
10 for slaughtering, processing and selling meat and meat products or for
11 production, pasteurizing and sale of milk and milk products, or other code
12 which embraces rules and regulations pertinent to a subject which is a proper
13 subject of municipal legislation.

14 2. "Municipality" means a city or town organized in accordance with
15 law, including a home rule or charter city.

16 3. "Public record" includes a statute, rule or regulation of the
17 United States, this state or the municipality which is desired to be adopted
18 by reference.

19 4. "Published" means printed, lithographed, multigraphed, mimeographed
20 or otherwise reproduced.

21 5. "State plumbing code" means the code adopted by the Arizona uniform
22 plumbing code commission established by section 41-619.

23 Sec. 2. Section 9-806, Arizona Revised Statutes, is amended to read:

24 9-806. Wildland-urban interface code

25 A. A city or town may adopt a current ~~urban-wildland~~ WILDLAND-URBAN
26 interface code. The code may be adapted from a model code adopted by a
27 national or international organization or association for mitigating the
28 hazard to life and property.

29 B. A city or town must follow written public procedures in the
30 development and adoption of the code and any revisions to the code to provide
31 effective, early and continuous public participation through:

32 1. The broad dissemination and publicity of the proposed code and any
33 revisions to the code.

34 2. The opportunity for submission and consideration of written public
35 comments.

36 3. Open discussions, communications programs and information services.

37 4. Consultation with federal agencies and state and local officials.

38 Sec. 3. Section 11-861, Arizona Revised Statutes, is amended to read:

39 11-861. Adoption of codes by reference; limitations; method of
40 adoption

41 A. In any county which has adopted zoning pursuant to this chapter,
42 the board of supervisors may adopt and enforce, for the unincorporated areas
43 of the county so zoned, a building code and other related codes to regulate
44 the quality, type of material and workmanship of all aspects of construction
45 of buildings or structures, except that the board may authorize that areas

1 zoned rural or unclassified may be exempt from the provisions of the code
2 adopted. Such codes may be adopted by reference after notice and hearings
3 before the county planning and zoning commission and board of supervisors as
4 provided in this chapter for amendments to the zoning ordinance of the
5 county.

6 B. The board of supervisors may adopt a fire prevention code in the
7 unincorporated areas of the county in which a fire district has not adopted
8 the uniform fire code pursuant to section 48-805. Any fire code adopted by a
9 board of supervisors pursuant to this subsection shall remain in effect until
10 a fire district is established and adopts a code applicable within the
11 boundaries of the district.

12 C. For the purpose of this article, codes authorized by subsections A
13 and B of this section shall be limited to the following:

14 1. Any building, electrical or mechanical code that has been
15 ~~promulgated~~ ADOPTED by any national organization or association that is
16 organized and conducted for the purpose of developing codes or that has been
17 adopted by the largest city in that county. If the board of supervisors
18 adopts a city code, it shall adopt, within ninety days after receiving a
19 written notification of a change to the city code, the same change or shall
20 terminate the adopted city code.

21 2. Any fire prevention code that has been adopted by a national
22 organization or association organized or conducted for the purpose of
23 developing fire prevention codes and that is as stringent as the state fire
24 code adopted pursuant to section 41-2146.

25 D. The board of supervisors may adopt a current ~~urban-wildland~~
26 WILDLAND-URBAN interface code. The code may be adapted from a model code
27 adopted by a national or international organization or association for
28 mitigating the hazard to life and property. The board must follow written
29 public procedures in the development and adoption of the code and any
30 revisions to the code to provide effective, early and continuous public
31 participation through:

32 1. The broad dissemination and publicity of the proposed code and any
33 revisions to the code.

34 2. The opportunity for submission and consideration of written public
35 comments.

36 3. Open discussions, communications programs and information services.

37 4. Consultation with federal agencies and state and local officials.

38 Sec. 4. Section 28-5606, Arizona Revised Statutes, is amended to read:

39 28-5606. Imposition of motor fuel taxes

40 A. In addition to all other taxes provided by law, a tax of eighteen
41 cents per gallon is imposed on motor vehicle fuel possessed, used or consumed
42 in this state.

43 B. To partially compensate this state for the use of its highways:

44 1. A use fuel tax is imposed on use fuel used in the propulsion of a
45 light class motor vehicle on a highway in this state at the same rate per

1 gallon as the motor vehicle fuel tax prescribed in subsection A of this
2 section, except that there is no use fuel tax on alternative fuels.

3 2. A use fuel tax is imposed on use fuel used in the propulsion of a
4 use class motor vehicle on a highway in this state at the rate of twenty-six
5 cents for each gallon, except that there is no use fuel tax on alternative
6 fuels and use class vehicles that are exempt pursuant to section 28-5432 from
7 the weight fee prescribed in section 28-5433 are subject to the use fuel tax
8 imposed by paragraph 1 of this subsection.

9 3. BEGINNING FROM AND AFTER AUGUST 31, 2005 THROUGH DECEMBER 31, 2010,
10 A USE FUEL TAX IS IMPOSED ON USE FUEL USED IN THE PROPULSION OF A MOTOR
11 VEHICLE TRANSPORTING FOREST PRODUCTS IN COMPLIANCE WITH THE REQUIREMENTS OF
12 SECTION 41-1516 ON A HIGHWAY IN THIS STATE AT THE RATE OF THIRTEEN CENTS FOR
13 EACH GALLON, EXCEPT THAT THERE IS NO USE FUEL TAX ON ALTERNATIVE FUELS.

14 C. The motor vehicle fuel and use fuel taxes imposed pursuant to this
15 section and the aviation fuel taxes imposed pursuant to section 28-8344 are
16 conclusively presumed to be direct taxes on the consumer or user but shall be
17 collected and remitted to the department by suppliers for the purpose of
18 convenience and facility only. Motor vehicle fuel, use fuel and aviation
19 fuel taxes that are collected and paid to the department by a supplier are
20 considered to be advance payments, shall be added to the price of motor
21 vehicle fuel, use fuel or aviation fuel and shall be recovered from the
22 consumer or user.

23 D. Motor vehicle fuel and use fuel taxes imposed pursuant to this
24 section on the use of motor vehicle fuel and use fuel and the aviation fuel
25 taxes imposed pursuant to section 28-8344 on the use of aviation fuel, other
26 than by bulk transfer, arise at the time the motor vehicle, use or aviation
27 fuel either:

28 1. Is imported into this state and is measured by invoiced gallons
29 received outside this state at a refinery, terminal or bulk plant for
30 delivery to a destination in this state.

31 2. Is removed, as measured by invoiced gallons, from the bulk transfer
32 terminal system or from a qualified terminal in this state.

33 3. Is removed, as measured by invoiced gallons, from the bulk transfer
34 terminal system or from a qualified terminal or refinery outside this state
35 for delivery to a destination in this state as represented on the shipping
36 papers if a supplier imports the motor vehicle, use or aviation fuel for the
37 account of the supplier or the supplier has made a tax precollection election
38 pursuant to section 28-5636.

39 E. If motor fuel is removed from the bulk transfer terminal system or
40 from a qualified terminal or is imported into this state, the original
41 removal, transfer or importation of the motor fuel is subject to the
42 collection of the tax. If this motor fuel is transported to another
43 qualified terminal or reenters the bulk transfer terminal system, the
44 subsequent sale of the motor fuel on which tax has been collected is not

1 subject to collection of an additional tax if proper documentation is
2 retained to support the transaction.

3 Sec. 5. Section 28-5614, Arizona Revised Statutes, is amended to read:
4 28-5614. Refunds; use fuel

5 A. If a vendor pays the use fuel tax rate for use class motor vehicles
6 on use fuel that is actually used in the propulsion of a light class motor
7 vehicle on a highway in this state or that is actually used in the propulsion
8 of a use class motor vehicle that is exempt pursuant to section 28-5432 from
9 the weight fee prescribed in section 28-5433 on a highway in this state and
10 for the purpose of convenience and facility only, the vendor may apply to the
11 department for a refund of the difference between the amount of the use class
12 motor vehicle use fuel tax paid and the amount of the light class motor
13 vehicle use fuel tax on the same number of gallons purchased.

14 B. IF A PERSON WHO TRANSPORTS FOREST PRODUCTS ON A HIGHWAY IN THIS
15 STATE IN COMPLIANCE WITH THE REQUIREMENTS OF SECTION 41-1516 PAYS THE USE
16 FUEL TAX RATE PRESCRIBED IN SECTION 28-5606, SUBSECTION B, PARAGRAPH 2 FOR A
17 USE CLASS MOTOR VEHICLE THAT IS ELIGIBLE FOR THE USE FUEL TAX RATE PRESCRIBED
18 IN SECTION 28-5606, SUBSECTION B, PARAGRAPH 3, THE PERSON MAY APPLY TO THE
19 DEPARTMENT FOR A REFUND OF THE DIFFERENCE BETWEEN THE AMOUNT OF THE USE FUEL
20 TAX PAID AND THE USE FUEL TAX RATE PRESCRIBED FOR A MOTOR VEHICLE
21 TRANSPORTING FOREST PRODUCTS.

22 ~~B.~~ C. The director may prescribe any forms the director deems
23 necessary to implement this section.

24 ~~C.~~ D. A vendor may file an application for a refund pursuant to this
25 section either:

26 1. On a monthly basis subject to the limitations prescribed in section
27 28-5612.

28 2. If the amount of the requested refund is at least seven hundred
29 fifty dollars, except that a vendor shall not file an application for a
30 refund pursuant to this paragraph more frequently than once each week.

31 ~~D.~~ E. The director shall:

32 1. Pay the refund from current use fuel tax receipts.

33 2. Deduct the refund from the monthly use fuel tax receipts before the
34 deposit pursuant to section 28-5730 is made.

35 Sec. 6. Section 41-1516, Arizona Revised Statutes, is amended to read:
36 41-1516. Healthy forest enterprise incentives; definitions

37 A. The department of commerce shall:

38 1. IMPLEMENT A PROGRAM TO ENCOURAGE COUNTIES, CITIES AND TOWNS TO
39 PROVIDE LOCAL INCENTIVES TO ECONOMIC ENTERPRISES THAT PROMOTE FOREST HEALTH
40 IN THIS STATE.

41 2. Identify and certify to the department of revenue the names OF and
42 relevant information relating to qualified businesses for the purposes of
43 available STATE tax incentives for economic enterprises that promote forest
44 health in this state.

1 B. To qualify for STATE tax incentives pursuant to this section, a
2 business:

3 ~~1. Must be primarily engaged in harvesting, transporting or the~~
4 ~~initial processing of forest products, including biomass, into a product~~
5 ~~having commercial value as follows:~~

6 ~~(a) At least one-half of the forest product, by volume, must be from~~
7 ~~biomass sources, and at least one-half of the biomass must be harvested from~~
8 ~~sources in this state.~~

9 ~~(b) For the purposes of section 42-5061, subsection B, paragraph 22,~~
10 ~~section 42-5071, subsection B, paragraph 2, subdivision (b) and section~~
11 ~~42-5159, subsection B, paragraph 22, the qualifying equipment must be for the~~
12 ~~purposes of harvesting, transporting or the initial processing of biomass.~~

13 ~~(c) The business must employ at least ten permanent full-time~~
14 ~~employees.~~

15 1. MUST BE PRIMARILY ENGAGED IN A QUALIFYING PROJECT. THE BUSINESS
16 SHALL SUBMIT TO THE DEPARTMENT OF COMMERCE EVIDENCE THAT IT IS ENGAGED IN A
17 QUALIFYING PROJECT AS FOLLOWS:

18 ~~(d)~~ (a) The business operation must enhance or sustain forest health,
19 sustain or recover watershed or improve public safety.

20 ~~2. Must agree with the department of commerce to furnish information~~
21 ~~relating to the amount of tax benefits that the business receives each~~
22 ~~year. The department of commerce shall immediately revoke the business's~~
23 ~~certification and notify the department of revenue if:~~

24 ~~(a) The business fails to provide the required information within~~
25 ~~thirty days after a formal request from the department.~~

26 ~~(b) The business no longer meets the terms and conditions required for~~
27 ~~qualification for the applicable tax incentives.~~

28 ~~3. Must agree to disclosure in composite form, without specific~~
29 ~~identification of the taxpayer, of the amount of tax benefits received each~~
30 ~~year.~~

31 (b) IF THE QUALIFYING FOREST PRODUCT IS ON FEDERAL LAND, THE BUSINESS
32 SHALL SUBMIT A LETTER FROM THE FEDERAL AGENCY ADMINISTERING THE LAND, OR
33 OFFICIAL RECORDS OR DOCUMENTS PRODUCED IN CONNECTION WITH THE PROJECT,
34 STATING THAT THE BUSINESS IS PRIMARILY ENGAGED IN THE BUSINESS OF HARVESTING
35 OR INITIAL PROCESSING OF QUALIFYING FOREST PRODUCTS FOR COMMERCIAL USE AS
36 FOLLOWS:

37 (i) AT LEAST SEVENTY PER CENT OF THE HARVESTED OR PROCESSED PRODUCTS,
38 MEASURED BY WEIGHT, MUST BE QUALIFYING FOREST PRODUCTS.

39 (ii) AT LEAST SEVENTY-FIVE PER CENT OF THE QUALIFYING FOREST PRODUCTS,
40 MEASURED BY WEIGHT, MUST BE HARVESTED FROM SOURCES IN THIS STATE.

41 (c) IF THE QUALIFYING FOREST PRODUCT IS NOT ON FEDERAL LAND, THE
42 BUSINESS SHALL SUBMIT A LETTER FROM THE STATE FORESTER STATING THAT THE
43 BUSINESS IS PRIMARILY ENGAGED IN THE BUSINESS OF HARVESTING OR INITIAL
44 PROCESSING OF QUALIFYING FOREST PRODUCTS FOR COMMERCIAL USE AS FOLLOWS:

1 (i) AT LEAST SEVENTY PER CENT OF THE HARVESTED OR PROCESSED PRODUCTS
2 MUST BE QUALIFYING FOREST PRODUCTS.

3 (ii) AT LEAST SEVENTY-FIVE PER CENT OF THE HARVESTED OR PROCESSED
4 PRODUCTS MUST BE FROM AREAS IN THIS STATE.

5 (d) IF THE BUSINESS IS ENGAGED IN TRANSPORTING QUALIFYING FOREST
6 PRODUCTS, IT MUST SUBMIT A LETTER FROM THE STATE FORESTER OR UNITED STATES
7 FOREST SERVICE, OR OFFICIAL RECORDS OR DOCUMENTS PRODUCED IN CONNECTION WITH
8 THE PROJECT, STATING THAT ALL OF THE QUALIFYING FOREST PRODUCTS IT TRANSPORTS
9 ARE HARVESTED FROM AREAS IN THIS STATE. IN ADDITION, THE BUSINESS MUST
10 SUBMIT EVIDENCE TO THE DEPARTMENT OF COMMERCE THAT AT LEAST SEVENTY-FIVE PER
11 CENT OF THE MILEAGE TRAVELED BY ITS UNITS EACH YEAR ARE FOR TRANSPORTING
12 QUALIFYING FOREST PRODUCTS FROM OR TO QUALIFYING PROJECTS DESCRIBED IN
13 SUBDIVISION (b) OR (c) OF THIS PARAGRAPH, UNLESS A LOWER MILEAGE IS DUE TO
14 FOREST CLOSURES OR WEATHER CONDITIONS THAT ARE BEYOND THE CONTROL OF THE
15 BUSINESS.

16 2. MUST EMPLOY AT LEAST THREE PERMANENT FULL-TIME EMPLOYEES.

17 3. MUST AGREE TO:

18 (a) FURNISH TO THE DEPARTMENT OF COMMERCE INFORMATION RELATING TO THE
19 AMOUNT OF STATE TAX BENEFITS THAT THE BUSINESS RECEIVES EACH YEAR.

20 (b) THE DISCLOSURE OF THE AMOUNT OF STATE TAX BENEFITS RECEIVED EACH
21 YEAR IN COMPOSITE FORM, WITHOUT SPECIFIC IDENTIFICATION OF THE TAXPAYER.

22 4. Must enter into a memorandum of understanding with the department
23 of commerce containing:

24 (a) Employment goals. Each year the business must report in writing
25 to the department of commerce its performance in achieving the goals.

26 (b) A commitment to continue in business and use the qualifying
27 ~~equipment for the purposes of promoting forest health in this state as~~
28 ~~contemplated in providing the tax incentives pursuant to this section~~
29 PRIMARILY ON QUALIFYING PROJECTS IN THIS STATE AS DESCRIBED IN PARAGRAPH 1 OF
30 THIS SUBSECTION, other than for reasons beyond the control of the business.
31 The department of commerce shall consult with the department of revenue in
32 designing the memorandum of understanding to incorporate the legal
33 qualifications for the AVAILABLE tax benefits INCENTIVES and shall include
34 the requirement that any qualifying equipment that is purchased or leased
35 free of transaction privilege or use tax must continue to be used IN THIS
36 STATE for the term of the memorandum of understanding or the duration of its
37 operational life, whichever is shorter.

38 (c) PROVISIONS CONSIDERED NECESSARY BY THE DEPARTMENT OF COMMERCE TO
39 ENSURE THE COMPETENCY AND RESPONSIBILITY OF BUSINESSES THAT QUALIFY UNDER
40 THIS SECTION, INCLUDING REGISTRATION OR OTHER ACCREDITATION WITH TRADE AND
41 PROFESSIONAL ORGANIZATIONS AND COMPLIANCE WITH BEST MANAGEMENT AND
42 OPERATIONAL PRACTICES USED BY GOVERNMENTAL AGENCIES IN AWARING FORESTRY
43 CONTRACTS.

44 ~~(e)~~ (d) The authorization for the department of commerce to
45 terminate, adjust or recapture all or part of the tax benefits provided to

the business on noncompliance with the law ~~or~~, NONCOMPLIANCE WITH the terms of the memorandum OR VIOLATION OF THE TERMS OF ANY CONTRACTS WITH THE FEDERAL OR STATE GOVERNMENT RELATING TO THE QUALIFYING PROJECT. The department of commerce shall notify the department of revenue of the conditions of noncompliance. The department of revenue may also terminate the certification if it obtains information indicating a failure to qualify and comply. The department of revenue may require the business to file appropriate amended tax returns OR TO FILE APPROPRIATE USE TAX RETURNS reflecting the recapture of the DIRECT OR INDIRECT tax benefits.

5. Must submit a copy of the certification to the department of revenue for approval before using the certification for purposes of any tax incentive. The department of revenue shall review and approve ~~or deny~~ the certification in a timely manner IF THE BUSINESS IS IN GOOD STANDING WITH THE DEPARTMENT AND IS NOT DELINQUENT IN THE PAYMENT OF ANY TAX COLLECTED BY THE DEPARTMENT. A failure to approve or deny the certification within sixty days after the date the business submits it to the department constitutes approval of the certification.

C. For the purposes of section 42-5075, subsection B, paragraph 19, the department of commerce shall certify prime contractors that contract for the construction of any building, or other structure, project, development or improvement owned by a qualified business for ~~harvesting, transporting or the initial processing of forest products, including biomass, as provided by this section.~~ PURPOSES OF A QUALIFYING PROJECT DESCRIBED IN SUBSECTION B, PARAGRAPH 1 OF THIS SECTION.

D. To obtain and maintain certification under this section, a business must:

1. Apply to the department of commerce.
2. Submit and retain copies of all required information, including information relating to the actual or projected number of employees in this state.
3. Allow inspections and audits to verify the qualification and accuracy of information submitted to the department of commerce.

E. CERTIFICATION UNDER THIS SECTION IS VALID FOR TWELVE CALENDAR MONTHS FROM THE DATE OF ISSUANCE. A BUSINESS MUST APPLY FOR RECERTIFICATION AT LEAST THIRTY DAYS BEFORE THE CURRENT CERTIFICATION EXPIRES. THE APPLICATION FOR RECERTIFICATION SHALL BE IN A FORM PRESCRIBED BY THE DEPARTMENT OF COMMERCE AND SHALL CONFIRM THAT THE BUSINESS IS CONTINUING IN A QUALIFYING PROJECT AND IS IN COMPLIANCE WITH ALL REQUIREMENTS PRESCRIBED FOR CERTIFICATION.

F. Within sixty days after receiving a complete and correct application and all required information as prescribed by this section, the department of commerce shall grant or deny certification and give written notice by certified mail to the applicant. The applicant is certified as a qualified business on the date the notice of certification is delivered to

1 the applicant. A failure to respond within sixty days after receiving a
2 complete and correct application constitutes approval of the application.

3 F. G. The certification shall state an effective date with respect to
4 each authorized tax incentive which, in each case, must be at the start of a
5 taxable year or taxable period.

6 H. ON OR BEFORE MARCH 1 OF EACH YEAR, EACH QUALIFYING BUSINESS SHALL
7 MAKE A REPORT TO THE DEPARTMENT OF COMMERCE ON ALL BUSINESS ACTIVITY IN THE
8 PRECEDING CALENDAR YEAR. BUSINESS INFORMATION CONTAINED IN THE REPORTS IS
9 CONFIDENTIAL AND SHALL NOT BE DISCLOSED TO THE PUBLIC EXCEPT AS PROVIDED BY
10 THIS SECTION AND EXCEPT THAT A COPY OF THE REPORT SHALL BE TRANSMITTED TO THE
11 DEPARTMENT OF REVENUE. THE REPORT SHALL BE IN A FORM PRESCRIBED BY THE
12 DEPARTMENT OF COMMERCE AND INCLUDE:

13 1. INFORMATION PRESCRIBED BY THE DEPARTMENT OF COMMERCE WITH RESPECT
14 TO BOTH QUALIFYING PROJECTS AND OTHER PROJECTS AND BUSINESS ACTIVITY THAT DO
15 NOT QUALIFY FOR PURPOSES OF THIS SECTION.

16 2. EMPLOYMENT INFORMATION NECESSARY TO CONFIRM ELIGIBILITY FOR INCOME
17 TAX CREDITS AS PRESCRIBED BY SECTIONS 43-1076 AND 43-1162.

18 I. FOR PURPOSES OF ADMINISTERING AND ENSURING COMPLIANCE WITH THIS
19 SECTION, AGENTS OF THE DEPARTMENT OF COMMERCE MAY ENTER, AND A QUALIFIED
20 BUSINESS SHALL ALLOW ACCESS TO, A QUALIFYING PROJECT SITE AT REASONABLE TIMES
21 AND ON REASONABLE NOTICE TO:

22 1. INSPECT THE FACILITIES AT THE SITE.

23 2. OBTAIN FACTUAL DATA AND RECORDS PERTINENT TO AND REQUIRED BY LAW TO
24 BE KEPT FOR PURPOSES OF TAX INCENTIVES.

25 3. OTHERWISE ASCERTAIN COMPLIANCE WITH LAW AND THE TERMS OF THE
26 MEMORANDUM OF UNDERSTANDING.

27 J. THE DEPARTMENT OF COMMERCE SHALL REVOKE THE BUSINESS' CERTIFICATION
28 AND NOTIFY THE DEPARTMENT OF REVENUE AND COUNTY ASSESSOR IF EITHER:

29 1. WITHIN THIRTY DAYS AFTER A FORMAL REQUEST FROM THE DEPARTMENT OF
30 COMMERCE OR THE DEPARTMENT OF REVENUE THE BUSINESS FAILS OR REFUSES TO
31 PROVIDE THE INFORMATION OR ACCESS FOR INSPECTIONS REQUIRED BY THIS SECTION.

32 2. THE BUSINESS NO LONGER MEETS THE TERMS AND CONDITIONS REQUIRED FOR
33 QUALIFICATION FOR THE APPLICABLE TAX INCENTIVES.

34 G. K. For the purposes of this section:

35 1. ~~"Biomass" means dead standing and fallen timber, and forest~~
36 ~~thinnings associated with the harvest of small diameter timber, slash, brush~~
37 ~~and other woody vegetation, removed from federal, state and other public~~
38 ~~forest land and from private forest land.~~

39 2. 1. "Forest health" means the degree to which the integrity of the
40 forest is sustained, including reducing the risk of catastrophic wildfire and
41 destructive insect infestation, benefiting wildland habitats, watersheds and
42 communities.

43 2. "HARVESTING" MEANS ALL OPERATIONS RELATING TO FELLING OR OTHERWISE
44 REMOVING TREES AND OTHER FOREST PLANT GROWTH AND PREPARING THEM FOR TRANSPORT
45 FOR SUBSEQUENT PROCESSING.

1 3. "Initial processing" means:

2 (a) The first change, after harvest, in the physical structure of
3 ~~biomass~~ QUALIFYING FOREST PRODUCTS REMOVED FROM A QUALIFYING PROJECT into a
4 marketable COMMERCIAL product or component of a product that has commercial
5 value to a consumer or purchaser and that is ready to be used with or without
6 further altering its form. ~~Initial processing does not include consumptive~~
7 ~~use or burning.~~

8 (b) BURNING QUALIFYING FOREST PRODUCTS IN THE PROCESS OF COMMERCIAL
9 ELECTRICAL GENERATION OR COMMERCIAL THERMAL ENERGY PRODUCTION FOR HEATING OR
10 COOLING, REGARDLESS OF THE PHYSICAL STRUCTURE OF THE FOREST PRODUCT BEFORE
11 BURNING.

12 4. "Qualifying equipment" MEANS EQUIPMENT USED DIRECTLY IN THE
13 HARVESTING OR INITIAL PROCESSING OF QUALIFYING FOREST PRODUCTS REMOVED FROM A
14 QUALIFYING PROJECT. QUALIFYING EQUIPMENT DOES NOT INCLUDE SELF-PROPELLED
15 VEHICLES REQUIRED TO BE LICENSED BY THIS STATE, BUT MAY INCLUDE OTHER
16 LICENSED VEHICLES AS PROVIDED BY THIS PARAGRAPH. QUALIFYING EQUIPMENT
17 includes:

18 (a) Forest thinning and residue removal equipment, including mulching
19 and masticating equipment, feller-bunchers, skidders, log loaders, portable
20 chippers and grinders, slash bundlers, ~~log trucks, chip trucks and~~ delimbers,
21 LOG TRAILERS, CHIP TRAILERS AND OTHER TRAILERS THAT ARE UNIQUELY DESIGNED FOR
22 HANDLING FOREST PRODUCTS AND THAT ARE LICENSED FOR OPERATION ON PUBLIC
23 HIGHWAYS.

24 (b) Forest residue receiving and handling equipment, including truck
25 dumpers, log unloaders, scales, log decking facilities and equipment and chip
26 pile facilities.

27 (c) Sorting and processing equipment, including portable and
28 stationary log loaders, front end loaders, fork lifts and cranes, chippers
29 and grinders, screens, decks and debarkers, saws and sawmill equipment,
30 firewood processing, wood residue baling and bagging equipment, kilns,
31 planing and molding equipment and laminating and joining equipment.

32 (d) Forest waste and residue disposal and processing equipment,
33 including:

34 (i) Processing and sizing equipment, hogs, chippers, screens,
35 pelletizers and wood splitters.

36 (ii) Transporting and handling equipment, including loaders,
37 conveyors, blowers, receiving hoppers, truck dumpers and dozers.

38 (iii) Waste use equipment, including fuel feed, storage bins, boilers
39 and combustors.

40 (iv) Waste project use equipment, including generators, switchgear and
41 substations and on-site distribution systems.

42 (v) Generated waste disposal equipment, including ash silos, ~~ash~~
43 ~~trucks~~ and wastewater treatment and disposal equipment.

1 (vi) Shop and maintenance equipment and major spares having a value of
2 more than five thousand dollars each.

3 5. "QUALIFYING FOREST PRODUCTS" MEANS DEAD STANDING AND FALLEN TIMBER,
4 AND FOREST THINNINGS ASSOCIATED WITH THE HARVEST OF SMALL DIAMETER TIMBER,
5 SLASH, WOOD CHIPS, PEELINGS, BRUSH AND OTHER WOODY VEGETATION, REMOVED FROM
6 FEDERAL, STATE AND OTHER PUBLIC FOREST LAND AND FROM PRIVATE FOREST LAND.

7 6. "QUALIFYING PROJECT" MEANS HARVESTING, TRANSPORTING OR THE INITIAL
8 PROCESSING OF QUALIFYING FOREST PRODUCTS AS REQUIRED FOR CERTIFICATION
9 PURSUANT TO THIS SECTION.

10 Sec. 7. Section 41-2148, Arizona Revised Statutes, is amended to read:
11 41-2148. State wildland-urban fire safety committee; definition

12 A. The state ~~urban-wildland~~ WILDLAND-URBAN fire safety committee is
13 established consisting of twelve members appointed for three year terms as
14 follows:

15 1. Four members who are appointed by the governor as follows:

16 (a) A fire chief or fire marshal of a paid municipal fire department
17 of a city with a population of fifty thousand persons or more.

18 (b) The state forester or the state forester's designee.

19 (c) A member of the Arizona fire chiefs' association.

20 (d) A city or town planning and zoning official from a municipality
21 with a high risk ~~urban-wildland~~ WILDLAND-URBAN interface area with a
22 population of fifty thousand persons or more.

23 2. Four members who are appointed by the president of the senate as
24 follows:

25 (a) A resident of, and property owner in, a city, town or county with
26 a high risk ~~urban-wildland~~ WILDLAND-URBAN interface area.

27 (b) A person who owns property and serves as a firefighter for a fire
28 district in an area at high risk from wildland fire.

29 (c) A watershed management expert.

30 (d) A member in a liaison capacity with this state's congressional
31 delegation. This member may be appointed from nominees solicited by the
32 president of the senate from one or more members of Congress.

33 3. Four members who are appointed by the speaker of the house of
34 representatives as follows:

35 (a) A wildland fire science expert from region 3 of the United States
36 forest service who resides in this state.

37 (b) A person who holds a professional position in forest ecology and
38 who is knowledgeable about the effects of forest thinning on the biological
39 diversity of forests.

40 (c) A property owner from a county with a population of less than five
41 hundred thousand persons who has knowledge and expertise in property
42 development in wildland areas.

43 (d) A registered architect with expertise in designing residential
44 dwellings.

1 B. The committee shall annually select a chairperson from its
2 membership. The committee shall meet at the call of the chairperson or on
3 the request of at least four members of the committee. Members of the
4 committee are not eligible to receive compensation for their service on the
5 committee but are eligible for reimbursement of expenses pursuant to title
6 38, chapter 4, article 2.

7 C. The committee shall develop recommendations for minimum standards
8 for:

9 1. Safeguarding life and property from wildland fire and fire hazards.

10 2. Preventing wildland fires and alleviation of fire hazards.

11 3. Storage, sale, distribution and use of dangerous chemicals,
12 combustibles, flammable liquids, explosives and radioactive materials in
13 ~~urban-wildland~~ WILDLAND-URBAN interface areas.

14 4. Fire evacuation routes and community alert systems.

15 5. The creation of defensible spaces in and around ~~urban-wildland~~
16 WILDLAND-URBAN interface areas as authorized by existing county and municipal
17 laws and ordinances.

18 6. The application of adaptive management practices to use in
19 monitoring data from treatment programs to assess the effectiveness of those
20 programs in meeting forest health objectives.

21 7. Other matters relating to ~~urban-wildland~~ WILDLAND-URBAN fire
22 prevention and control that the committee considers to be necessary.

23 D. The committee shall issue an annual report with recommendations to
24 the governor and the legislature by December 31 of each year. The committee
25 shall provide a copy of the report to the secretary of state and the director
26 of the Arizona state library, archives and public records.

27 E. For the purposes of this section, "~~urban-wildland~~ WILDLAND-URBAN
28 interface" means a geographical area where residential or commercial
29 structures meet or intermingle with federal, state, tribal or other public
30 land that is undeveloped, other than transportation or utility
31 infrastructure.

32 Sec. 8. Section 42-5061, Arizona Revised Statutes, is amended to read:

33 42-5061. Retail classification; definitions

34 A. The retail classification is comprised of the business of selling
35 tangible personal property at retail. The tax base for the retail
36 classification is the gross proceeds of sales or gross income derived from
37 the business. The tax imposed on the retail classification does not apply to
38 the gross proceeds of sales or gross income from:

39 1. Professional or personal service occupations or businesses which
40 involve sales or transfers of tangible personal property only as
41 inconsequential elements.

42 2. Services rendered in addition to selling tangible personal property
43 at retail.

1 3. Sales of warranty or service contracts. The storage, use or
2 consumption of tangible personal property provided under the conditions of
3 such contracts is subject to tax under section 42-5156.

4 4. Sales of tangible personal property by any nonprofit organization
5 organized and operated exclusively for charitable purposes and recognized by
6 the United States internal revenue service under section 501(c)(3) of the
7 internal revenue code.

8 5. Sales to persons engaged in business classified under the
9 restaurant classification of articles used by human beings for food, drink or
10 condiment, whether simple, mixed or compounded.

11 6. Business activity which is properly included in any other business
12 classification which is taxable under article 1 of this chapter.

13 7. The sale of stocks and bonds.

14 8. Drugs and medical oxygen, including delivery hose, mask or tent,
15 regulator and tank, on the prescription of a member of the medical, dental or
16 veterinarian profession who is licensed by law to administer such substances.

17 9. Prosthetic appliances as defined in section 23-501 prescribed or
18 recommended by a health professional licensed pursuant to title 32, chapter
19 7, 8, 11, 13, 14, 15, 16, 17 or 29.

20 10. Insulin, insulin syringes and glucose test strips.

21 11. Prescription eyeglasses or contact lenses.

22 12. Hearing aids as defined in section 36-1901.

23 13. Durable medical equipment which has a centers for medicare and
24 medicaid services common procedure code, is designated reimbursable by
25 medicare, is prescribed by a person who is licensed under title 32, chapter
26 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
27 customarily used to serve a medical purpose, is generally not useful to a
28 person in the absence of illness or injury and is appropriate for use in the
29 home.

30 14. Sales to nonresidents of this state for use outside this state if
31 the vendor ships or delivers the tangible personal property out of this
32 state.

33 15. Food, as provided in and subject to the conditions of article 3 of
34 this chapter and section 42-5074.

35 16. Items purchased with United States department of agriculture food
36 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
37 958) or food instruments issued under section 17 of the child nutrition act
38 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
39 section 1786).

40 17. Textbooks by any bookstore that are required by any state
41 university or community college.

42 18. Food and drink to a person who is engaged in business which is
43 classified under the restaurant classification and which provides such food
44 and drink without monetary charge to its employees for their own consumption
45 on the premises during the employees' hours of employment.

1 19. Articles of food, drink or condiment and accessory tangible
2 personal property to a school district if such articles and accessory
3 tangible personal property are to be prepared and served to persons for
4 consumption on the premises of a public school within the district during
5 school hours.

6 20. Lottery tickets or shares pursuant to title 5, chapter 5,
7 article 1.

8 21. The sale of precious metal bullion and monetized bullion to the
9 ultimate consumer, but the sale of coins or other forms of money for
10 manufacture into jewelry or works of art is subject to the tax. In this
11 paragraph:

12 (a) "Monetized bullion" means coins and other forms of money which are
13 manufactured from gold, silver or other metals and which have been or are
14 used as a medium of exchange in this or another state, the United States or a
15 foreign nation.

16 (b) "Precious metal bullion" means precious metal, including gold,
17 silver, platinum, rhodium and palladium, which has been smelted or refined so
18 that its value depends on its contents and not on its form.

19 22. Motor vehicle fuel and use fuel which are subject to a tax imposed
20 under title 28, chapter 16, article 1, sales of use fuel to a holder of a
21 valid single trip use fuel tax permit issued under section 28-5739, sales of
22 aviation fuel which are subject to the tax imposed under section 28-8344 and
23 sales of jet fuel which are subject to the tax imposed under article 8 of
24 this chapter.

25 23. Tangible personal property sold to a person engaged in the business
26 of leasing or renting such property under the personal property rental
27 classification if such property is to be leased or rented by such person.

28 24. Tangible personal property sold in interstate or foreign commerce
29 if prohibited from being so taxed by the Constitution of the United States or
30 the constitution of this state.

31 25. Tangible personal property sold to:

32 (a) A qualifying hospital as defined in section 42-5001.

33 (b) A qualifying health care organization as defined in section
34 42-5001 if the tangible personal property is used by the organization solely
35 to provide health and medical related educational and charitable services.

36 (c) A qualifying health care organization as defined in section
37 42-5001 if the organization is dedicated to providing educational,
38 therapeutic, rehabilitative and family medical education training for blind,
39 visually impaired and multihandicapped children from the time of birth to age
40 twenty-one.

41 (d) A qualifying community health center as defined in section
42 42-5001.

43 (e) A nonprofit charitable organization that has qualified under
44 section 501(c)(3) of the internal revenue code and that regularly serves
45 meals to the needy and indigent on a continuing basis at no cost.

1 (f) For taxable periods beginning from and after June 30, 2001, a
2 nonprofit charitable organization that has qualified under section 501(c)(3)
3 of the internal revenue code and that provides residential apartment housing
4 for low income persons over sixty-two years of age in a facility that
5 qualifies for a federal housing subsidy, if the tangible personal property is
6 used by the organization solely to provide residential apartment housing for
7 low income persons over sixty-two years of age in a facility that qualifies
8 for a federal housing subsidy.

9 26. Magazines or other periodicals or other publications by this state
10 to encourage tourist travel.

11 27. Tangible personal property sold to a person that is subject to tax
12 under this article by reason of being engaged in business classified under
13 the prime contracting classification under section 42-5075, or to a
14 subcontractor working under the control of a prime contractor that is subject
15 to tax under article 1 of this chapter, if the property so sold is any of the
16 following:

17 (a) Incorporated or fabricated by the person into any real property,
18 structure, project, development or improvement as part of the business.

19 (b) Used in environmental response or remediation activities under
20 section 42-5075, subsection B, paragraph 6.

21 (c) Incorporated or fabricated by the person into any lake facility
22 development in a commercial enhancement reuse district under conditions
23 prescribed for the deduction allowed by section 42-5075, subsection B,
24 paragraph 8.

25 28. The sale of a motor vehicle to:

26 (a) A nonresident of this state if the purchaser's state of residence
27 does not allow a corresponding use tax exemption to the tax imposed by
28 article 1 of this chapter and if the nonresident has secured a special thirty
29 day nonresident registration permit for the vehicle as prescribed by sections
30 28-2154 and 28-2154.01.

31 (b) An enrolled member of an Indian tribe who resides on the Indian
32 reservation established for that tribe.

33 29. Tangible personal property purchased in this state by a nonprofit
34 charitable organization that has qualified under section 501(c)(3) of the
35 United States internal revenue code and that engages in and uses such
36 property exclusively in programs for mentally or physically handicapped
37 persons if the programs are exclusively for training, job placement,
38 rehabilitation or testing.

39 30. Sales of tangible personal property by a nonprofit organization
40 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)
41 of the internal revenue code if the organization is associated with a major
42 league baseball team or a national touring professional golfing association
43 and no part of the organization's net earnings inures to the benefit of any
44 private shareholder or individual.

1 31. Sales of commodities, as defined by title 7 United States Code
2 section 2, that are consigned for resale in a warehouse in this state in or
3 from which the commodity is deliverable on a contract for future delivery
4 subject to the rules of a commodity market regulated by the United States
5 commodity futures trading commission.

6 32. Sales of tangible personal property by a nonprofit organization
7 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
8 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
9 sponsors or operates a rodeo featuring primarily farm and ranch animals and
10 no part of the organization's net earnings inures to the benefit of any
11 private shareholder or individual.

12 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
13 propagative material to persons who use those items to commercially produce
14 agricultural, horticultural, viticultural or floricultural crops in this
15 state.

16 34. Machinery, equipment, technology or related supplies that are only
17 useful to assist a person who is physically disabled as defined in section
18 46-191, has a developmental disability as defined in section 36-551 or has a
19 head injury as defined in section 41-3201 to be more independent and
20 functional.

21 35. Sales of tangible personal property that is shipped or delivered
22 directly to a destination outside the United States for use in that foreign
23 country.

24 36. Sales of natural gas or liquefied petroleum gas used to propel a
25 motor vehicle.

26 37. Paper machine clothing, such as forming fabrics and dryer felts,
27 sold to a paper manufacturer and directly used or consumed in paper
28 manufacturing.

29 38. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
30 sold to a qualified environmental technology manufacturer, producer or
31 processor as defined in section 41-1514.02 and directly used or consumed in
32 the generation or provision of on-site power or energy solely for
33 environmental technology manufacturing, producing or processing or
34 environmental protection. This paragraph shall apply for fifteen full
35 consecutive calendar or fiscal years from the date the first paper
36 manufacturing machine is placed in service. In the case of an environmental
37 technology manufacturer, producer or processor who does not manufacture
38 paper, the time period shall begin with the date the first manufacturing,
39 processing or production equipment is placed in service.

40 39. Sales of liquid, solid or gaseous chemicals used in manufacturing,
41 processing, fabricating, mining, refining, metallurgical operations, research
42 and development and, beginning on January 1, 1999, printing, if using or
43 consuming the chemicals, alone or as part of an integrated system of
44 chemicals, involves direct contact with the materials from which the product
45 is produced for the purpose of causing or permitting a chemical or physical

1 change to occur in the materials as part of the production process. This
2 paragraph does not include chemicals that are used or consumed in activities
3 such as packaging, storage or transportation but does not affect any
4 deduction for such chemicals that is otherwise provided by this section. For
5 purposes of this paragraph, "printing" means a commercial printing operation
6 and includes job printing, engraving, embossing, copying and bookbinding.

7 40. Through December 31, 1994, personal property liquidation
8 transactions, conducted by a personal property liquidator. From and after
9 December 31, 1994, personal property liquidation transactions shall be
10 taxable under this section provided that nothing in this subsection shall be
11 construed to authorize the taxation of casual activities or transactions
12 under this chapter. In this paragraph:

13 (a) "Personal property liquidation transaction" means a sale of
14 personal property made by a personal property liquidator acting solely on
15 behalf of the owner of the personal property sold at the dwelling of the
16 owner or upon the death of any owner, on behalf of the surviving spouse, if
17 any, any devisee or heir or the personal representative of the estate of the
18 deceased, if one has been appointed.

19 (b) "Personal property liquidator" means a person who is retained to
20 conduct a sale in a personal property liquidation transaction.

21 41. Sales of food, drink and condiment for consumption within the
22 premises of any prison, jail or other institution under the jurisdiction of
23 the state department of corrections, the department of public safety, the
24 department of juvenile corrections or a county sheriff.

25 42. A motor vehicle and any repair and replacement parts and tangible
26 personal property becoming a part of such motor vehicle sold to a motor
27 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
28 and who is engaged in the business of leasing or renting such property.

29 43. Livestock and poultry feed, salts, vitamins and other additives for
30 livestock or poultry consumption that are sold to persons who are engaged in
31 producing livestock, poultry, or livestock or poultry products or who are
32 engaged in feeding livestock or poultry commercially. For purposes of this
33 paragraph, "poultry" includes ratites.

34 44. Sales of implants used as growth promotants and injectable
35 medicines, not already exempt under paragraph 8 of this subsection, for
36 livestock or poultry owned by or in possession of persons who are engaged in
37 producing livestock, poultry, or livestock or poultry products or who are
38 engaged in feeding livestock or poultry commercially. For purposes of this
39 paragraph, "poultry" includes ratites.

40 45. Sales of motor vehicles at auction to nonresidents of this state
41 for use outside this state if the vehicles are shipped or delivered out of
42 this state, regardless of where title to the motor vehicles passes or its
43 free on board point.

44 46. Tangible personal property sold to a person engaged in business and
45 subject to tax under the transient lodging classification if the tangible

1 personal property is a personal hygiene item or articles used by human beings
2 for food, drink or condiment, except alcoholic beverages, which are furnished
3 without additional charge to and intended to be consumed by the transient
4 during the transient's occupancy.

5 47. Sales of alternative fuel, as defined in section 1-215, to a used
6 oil fuel burner who has received a permit to burn used oil or used oil fuel
7 under section 49-426 or 49-480.

8 48. Sales of materials that are purchased by or for publicly funded
9 libraries including school district libraries, charter school libraries,
10 community college libraries, state university libraries or federal, state,
11 county or municipal libraries for use by the public as follows:

12 (a) Printed or photographic materials, beginning August 7, 1985.

13 (b) Electronic or digital media materials, beginning July 17, 1994.

14 49. Tangible personal property sold to a commercial airline and
15 consisting of food, beverages and condiments and accessories used for serving
16 the food and beverages, if those items are to be provided without additional
17 charge to passengers for consumption in flight. For purposes of this
18 paragraph, "commercial airline" means a person holding a federal certificate
19 of public convenience and necessity or foreign air carrier permit for air
20 transportation to transport persons, property or United States mail in
21 intrastate, interstate or foreign commerce.

22 50. Sales of alternative fuel vehicles if the vehicle was manufactured
23 as a diesel fuel vehicle and converted to operate on alternative fuel and
24 equipment that is installed in a conventional diesel fuel motor vehicle to
25 convert the vehicle to operate on an alternative fuel, as defined in section
26 1-215.

27 51. Sales of any spirituous, vinous or malt liquor by a person that is
28 licensed in this state as a wholesaler by the department of liquor licenses
29 and control pursuant to title 4, chapter 2, article 1.

30 52. Sales of tangible personal property to be incorporated or installed
31 as part of environmental response or remediation activities under section
32 42-5075, subsection B, paragraph 6.

33 53. Sales of tangible personal property by a nonprofit organization
34 that is exempt from taxation under section 501(c)(6) of the internal revenue
35 code if the organization produces, organizes or promotes cultural or civic
36 related festivals or events and no part of the organization's net earnings
37 inures to the benefit of any private shareholder or individual.

38 B. In addition to the deductions from the tax base prescribed by
39 subsection A of this section, the gross proceeds of sales or gross income
40 derived from sales of the following categories of tangible personal property
41 shall be deducted from the tax base:

42 1. Machinery, or equipment, used directly in manufacturing,
43 processing, fabricating, job printing, refining or metallurgical operations.
44 The terms "manufacturing", "processing", "fabricating", "job printing",
45 "refining" and "metallurgical" as used in this paragraph refer to and include

1 those operations commonly understood within their ordinary meaning.
2 "Metallurgical operations" includes leaching, milling, precipitating,
3 smelting and refining.

4 2. Mining machinery, or equipment, used directly in the process of
5 extracting ores or minerals from the earth for commercial purposes, including
6 equipment required to prepare the materials for extraction and handling,
7 loading or transporting such extracted material to the surface. "Mining"
8 includes underground, surface and open pit operations for extracting ores and
9 minerals.

10 3. Tangible personal property sold to persons engaged in business
11 classified under the telecommunications classification and consisting of
12 central office switching equipment, switchboards, private branch exchange
13 equipment, microwave radio equipment and carrier equipment including optical
14 fiber, coaxial cable and other transmission media which are components of
15 carrier systems.

16 4. Machinery, equipment or transmission lines used directly in
17 producing or transmitting electrical power, but not including
18 distribution. Transformers and control equipment used at transmission
19 substation sites constitute equipment used in producing or transmitting
20 electrical power.

21 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or
22 to be used as breeding or production stock, including sales of breedings or
23 ownership shares in such animals used for breeding or production.

24 6. Pipes or valves four inches in diameter or larger used to transport
25 oil, natural gas, artificial gas, water or coal slurry, including compressor
26 units, regulators, machinery and equipment, fittings, seals and any other
27 part that is used in operating the pipes or valves.

28 7. Aircraft, navigational and communication instruments and other
29 accessories and related equipment sold to:

30 (a) A person holding a federal certificate of public convenience and
31 necessity, a supplemental air carrier certificate under federal aviation
32 regulations (14 Code of Federal Regulations part 121) or a foreign air
33 carrier permit for air transportation for use as or in conjunction with or
34 becoming a part of aircraft to be used to transport persons, property or
35 United States mail in intrastate, interstate or foreign commerce.

36 (b) Any foreign government for use by such government outside of this
37 state.

38 (c) Persons who are not residents of this state and who will not use
39 such property in this state other than in removing such property from this
40 state. This subdivision also applies to corporations that are not
41 incorporated in this state, regardless of maintaining a place of business in
42 this state, if the principal corporate office is located outside this state
43 and the property will not be used in this state other than in removing the
44 property from this state.

1 8. Machinery, tools, equipment and related supplies used or consumed
2 directly in repairing, remodeling or maintaining aircraft, aircraft engines
3 or aircraft component parts by or on behalf of a certificated or licensed
4 carrier of persons or property.

5 9. Railroad rolling stock, rails, ties and signal control equipment
6 used directly to transport persons or property.

7 10. Machinery or equipment used directly to drill for oil or gas or
8 used directly in the process of extracting oil or gas from the earth for
9 commercial purposes.

10 11. Buses or other urban mass transit vehicles which are used directly
11 to transport persons or property for hire or pursuant to a governmentally
12 adopted and controlled urban mass transportation program and which are sold
13 to bus companies holding a federal certificate of convenience and necessity
14 or operated by any city, town or other governmental entity or by any person
15 contracting with such governmental entity as part of a governmentally adopted
16 and controlled program to provide urban mass transportation.

17 12. Groundwater measuring devices required under section 45-604.

18 13. New machinery and equipment consisting of tractors, tractor-drawn
19 implements, self-powered implements, machinery and equipment necessary for
20 extracting milk, and machinery and equipment necessary for cooling milk and
21 livestock, and drip irrigation lines not already exempt under paragraph 6 of
22 this subsection and that are used for commercial production of agricultural,
23 horticultural, viticultural and floricultural crops and products in this
24 state. In this paragraph:

25 (a) "New machinery and equipment" means machinery and equipment which
26 have never been sold at retail except pursuant to leases or rentals which do
27 not total two years or more.

28 (b) "Self-powered implements" includes machinery and equipment that
29 are electric-powered.

30 14. Machinery or equipment used in research and development. In this
31 paragraph, "research and development" means basic and applied research in the
32 sciences and engineering, and designing, developing or testing prototypes,
33 processes or new products, including research and development of computer
34 software that is embedded in or an integral part of the prototype or new
35 product or that is required for machinery or equipment otherwise exempt under
36 this section to function effectively. Research and development do not
37 include manufacturing quality control, routine consumer product testing,
38 market research, sales promotion, sales service, research in social sciences
39 or psychology, computer software research that is not included in the
40 definition of research and development, or other nontechnological activities
41 or technical services.

42 15. Machinery and equipment that are purchased by or on behalf of the
43 owners of a soundstage complex and primarily used for motion picture,
44 multimedia or interactive video production in the complex. This paragraph
45 applies only if the initial construction of the soundstage complex begins

1 after June 30, 1996 and before January 1, 2002 and the machinery and
2 equipment are purchased before the expiration of five years after the start
3 of initial construction. For purposes of this paragraph:

4 (a) "Motion picture, multimedia or interactive video production"
5 includes products for theatrical and television release, educational
6 presentations, electronic retailing, documentaries, music videos, industrial
7 films, CD-ROM, video game production, commercial advertising and television
8 episode production and other genres that are introduced through developing
9 technology.

10 (b) "Soundstage complex" means a facility of multiple stages including
11 production offices, construction shops and related areas, prop and costume
12 shops, storage areas, parking for production vehicles and areas that are
13 leased to businesses that complement the production needs and orientation of
14 the overall facility.

15 16. Tangible personal property that is used by either of the following
16 to receive, store, convert, produce, generate, decode, encode, control or
17 transmit telecommunications information:

18 (a) Any direct broadcast satellite television or data transmission
19 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
20 100.

21 (b) Any satellite television or data transmission facility, if both of
22 the following conditions are met:

23 (i) Over two-thirds of the transmissions, measured in megabytes,
24 transmitted by the facility during the test period were transmitted to or on
25 behalf of one or more direct broadcast satellite television or data
26 transmission services that operate pursuant to 47 Code of Federal Regulations
27 parts 25 and 100.

28 (ii) Over two-thirds of the transmissions, measured in megabytes,
29 transmitted by or on behalf of those direct broadcast television or data
30 transmission services during the test period were transmitted by the facility
31 to or on behalf of those services.

32 For purposes of subdivision (b) of this paragraph, "test period" means the
33 three hundred sixty-five day period beginning on the later of the date on
34 which the tangible personal property is purchased or the date on which the
35 direct broadcast satellite television or data transmission service first
36 transmits information to its customers.

37 17. Clean rooms that are used for manufacturing, processing,
38 fabrication or research and development, as defined in paragraph 14 of this
39 subsection, of semiconductor products. For purposes of this paragraph,
40 "clean room" means all property that comprises or creates an environment
41 where humidity, temperature, particulate matter and contamination are
42 precisely controlled within specified parameters, without regard to whether
43 the property is actually contained within that environment or whether any of
44 the property is affixed to or incorporated into real property. Clean room:

1 (a) Includes the integrated systems, fixtures, piping, movable
2 partitions, lighting and all property that is necessary or adapted to reduce
3 contamination or to control airflow, temperature, humidity, chemical purity
4 or other environmental conditions or manufacturing tolerances, as well as the
5 production machinery and equipment operating in conjunction with the clean
6 room environment.

7 (b) Does not include the building or other permanent, nonremovable
8 component of the building that houses the clean room environment.

9 18. Machinery and equipment used directly in the feeding of poultry,
10 the environmental control of housing for poultry, the movement of eggs within
11 a production and packaging facility or the sorting or cooling of eggs. This
12 exemption does not apply to vehicles used for transporting eggs.

13 19. Machinery or equipment, including related structural components,
14 that is employed in connection with manufacturing, processing, fabricating,
15 job printing, refining, mining, natural gas pipelines, metallurgical
16 operations, telecommunications, producing or transmitting electricity or
17 research and development and that is used directly to meet or exceed rules or
18 regulations adopted by the federal energy regulatory commission, the United
19 States environmental protection agency, the United States nuclear regulatory
20 commission, the Arizona department of environmental quality or a political
21 subdivision of this state to prevent, monitor, control or reduce land, water
22 or air pollution.

23 20. Machinery and equipment that are sold to a person engaged in the
24 commercial production of livestock, livestock products or agricultural,
25 horticultural, viticultural or floricultural crops or products in this state
26 and that are used directly and primarily to prevent, monitor, control or
27 reduce air, water or land pollution.

28 21. Machinery or equipment that enables a television station to
29 originate and broadcast or to receive and broadcast digital television
30 signals and that was purchased to facilitate compliance with the
31 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
32 Code section 336) and the federal communications commission order issued
33 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
34 not exempt any of the following:

35 (a) Repair or replacement parts purchased for the machinery or
36 equipment described in this paragraph.

37 (b) Machinery or equipment purchased to replace machinery or equipment
38 for which an exemption was previously claimed and taken under this paragraph.

39 (c) Any machinery or equipment purchased after the television station
40 has ceased analog broadcasting, or purchased after November 1, 2009,
41 whichever occurs first.

42 22. Qualifying equipment that is purchased from and after June 30, 2004
43 through June 30, 2014 by a qualified business UNDER SECTION 41-1516 for
44 harvesting, ~~transporting~~ or the initial processing of QUALIFYING forest
45 products, ~~including biomass, as provided~~ REMOVED FROM QUALIFYING PROJECTS AS

1 DEFINED in section 41-1516. To qualify for this deduction, the qualified
2 business at the time of purchase must present its certification approved by
3 the department.

4 C. The deductions provided by subsection B of this section do not
5 include sales of:

6 1. Expendable materials. For purposes of this paragraph, expendable
7 materials do not include any of the categories of tangible personal property
8 specified in subsection B of this section regardless of the cost or useful
9 life of that property.

10 2. Janitorial equipment and hand tools.

11 3. Office equipment, furniture and supplies.

12 4. Tangible personal property used in selling or distributing
13 activities, other than the telecommunications transmissions described in
14 subsection B, paragraph 16 of this section.

15 5. Motor vehicles required to be licensed by this state, except buses
16 or other urban mass transit vehicles specifically exempted pursuant to
17 subsection B, paragraph 11 of this section, without regard to the use of such
18 motor vehicles.

19 6. Shops, buildings, docks, depots and all other materials of whatever
20 kind or character not specifically included as exempt.

21 7. Motors and pumps used in drip irrigation systems.

22 D. In addition to the deductions from the tax base prescribed by
23 subsection A of this section, there shall be deducted from the tax base the
24 gross proceeds of sales or gross income derived from sales of machinery,
25 equipment, materials and other tangible personal property used directly and
26 predominantly to construct a qualified environmental technology
27 manufacturing, producing or processing facility as described in section
28 41-1514.02. This subsection applies for ten full consecutive calendar or
29 fiscal years after the start of initial construction.

30 E. In computing the tax base, gross proceeds of sales or gross income
31 from retail sales of heavy trucks and trailers does not include any amount
32 attributable to federal excise taxes imposed by 26 United States Code section
33 4051.

34 F. In computing the tax base, gross proceeds of sales or gross income
35 from the sale of use fuel, as defined in section 28-5601, does not include
36 any amount attributable to federal excise taxes imposed by 26 United States
37 Code section 4091.

38 G. If a person is engaged in an occupation or business to which
39 subsection A of this section applies, the person's books shall be kept so as
40 to show separately the gross proceeds of sales of tangible personal property
41 and the gross income from sales of services, and if not so kept the tax shall
42 be imposed on the total of the person's gross proceeds of sales of tangible
43 personal property and gross income from services.

44 H. If a person is engaged in the business of selling tangible personal
45 property at both wholesale and retail, the tax under this section applies

1 only to the gross proceeds of the sales made other than at wholesale if the
2 person's books are kept so as to show separately the gross proceeds of sales
3 of each class, and if the books are not so kept, the tax under this section
4 applies to the gross proceeds of every sale so made.

5 I. A person who engages in manufacturing, baling, crating, boxing,
6 barreling, canning, bottling, sacking, preserving, processing or otherwise
7 preparing for sale or commercial use any livestock, agricultural or
8 horticultural product or any other product, article, substance or commodity
9 and who sells the product of such business at retail in this state is deemed,
10 as to such sales, to be engaged in business classified under the retail
11 classification. This subsection does not apply to businesses classified
12 under the:

- 13 1. Transporting classification.
- 14 2. Utilities classification.
- 15 3. Telecommunications classification.
- 16 4. Pipeline classification.
- 17 5. Private car line classification.
- 18 6. Publication classification.
- 19 7. Job printing classification.
- 20 8. Prime contracting classification.
- 21 9. Owner builder sales classification.
- 22 10. Restaurant classification.

23 J. The gross proceeds of sales or gross income derived from the
24 following shall be deducted from the tax base for the retail classification:

25 1. Sales made directly to the United States government or its
26 departments or agencies by a manufacturer, modifier, assembler or repairer.

27 2. Sales made directly to a manufacturer, modifier, assembler or
28 repairer if such sales are of any ingredient or component part of products
29 sold directly to the United States government or its departments or agencies
30 by the manufacturer, modifier, assembler or repairer.

31 3. Overhead materials or other tangible personal property that is used
32 in performing a contract between the United States government and a
33 manufacturer, modifier, assembler or repairer, including property used in
34 performing a subcontract with a government contractor who is a manufacturer,
35 modifier, assembler or repairer, to which title passes to the government
36 under the terms of the contract or subcontract.

37 4. Sales of overhead materials or other tangible personal property to
38 a manufacturer, modifier, assembler or repairer if the gross proceeds of
39 sales or gross income derived from the property by the manufacturer,
40 modifier, assembler or repairer will be exempt under paragraph 3 of this
41 subsection.

42 K. There shall be deducted from the tax base fifty per cent of the
43 gross proceeds or gross income from any sale of tangible personal property
44 made directly to the United States government or its departments or agencies,
45 which is not deducted under subsection J of this section.

1 L. The department shall require every person claiming a deduction
2 provided by subsection J or K of this section to file on forms prescribed by
3 the department at such times as the department directs a sworn statement
4 disclosing the name of the purchaser and the exact amount of sales on which
5 the exclusion or deduction is claimed.

6 M. In computing the tax base, gross proceeds of sales or gross income
7 does not include:

8 1. A manufacturer's cash rebate on the sales price of a motor vehicle
9 if the buyer assigns the buyer's right in the rebate to the retailer.

10 2. The waste tire disposal fee imposed pursuant to section 44-1302.

11 N. There shall be deducted from the tax base the amount received from
12 sales of solar energy devices, but the deduction shall not exceed five
13 thousand dollars for each solar energy device. Before deducting any amount
14 under this subsection, the retailer shall register with the department as a
15 solar energy retailer. By registering, the retailer acknowledges that it
16 will make its books and records relating to sales of solar energy devices
17 available to the department for examination.

18 O. In computing the tax base in the case of the sale or transfer of
19 wireless telecommunications equipment as an inducement to a customer to enter
20 into or continue a contract for telecommunications services that are taxable
21 under section 42-5064, gross proceeds of sales or gross income does not
22 include any sales commissions or other compensation received by the retailer
23 as a result of the customer entering into or continuing a contract for the
24 telecommunications services.

25 P. For the purposes of this section, a sale of wireless
26 telecommunications equipment to a person who holds the equipment for sale or
27 transfer to a customer as an inducement to enter into or continue a contract
28 for telecommunications services that are taxable under section 42-5064 is
29 considered to be a sale for resale in the regular course of business.

30 Q. Retail sales of prepaid calling cards or prepaid authorization
31 numbers for telecommunications services, including sales of reauthorization
32 of a prepaid card or authorization number, are subject to tax under this
33 section.

34 R. For the purposes of this section, the diversion of gas from a
35 pipeline by a person engaged in the business of operating a natural or
36 artificial gas pipeline, for the sole purpose of fueling compressor equipment
37 to pressurize the pipeline, is not a sale of the gas to the operator of the
38 pipeline.

39 S. If a seller is entitled to a deduction pursuant to subsection B,
40 paragraph 16, subdivision (b) of this section, the department may require the
41 purchaser to establish that the requirements of subsection B, paragraph 16,
42 subdivision (b) of this section have been satisfied. If the purchaser cannot
43 establish that the requirements of subsection B, paragraph 16, subdivision
44 (b) of this section have been satisfied, the purchaser is liable in an amount
45 equal to any tax, penalty and interest which the seller would have been

1 required to pay under article 1 of this chapter if the seller had not made a
2 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this
3 section. Payment of the amount under this subsection exempts the purchaser
4 from liability for any tax imposed under article 4 of this chapter and
5 related to the tangible personal property purchased. The amount shall be
6 treated as transaction privilege tax to the purchaser and as tax revenues
7 collected from the seller to designate the distribution base pursuant to
8 section 42-5029.

9 T. For purposes of section 42-5032.01, the department shall separately
10 account for revenues collected under the retail classification from
11 businesses selling tangible personal property at retail:

12 1. On the premises of a multipurpose facility that is owned, leased or
13 operated by the tourism and sports authority pursuant to title 5, chapter 8.

14 2. At professional football contests that are held in a stadium
15 located on the campus of an institution under the jurisdiction of the Arizona
16 board of regents.

17 U. In computing the tax base for the sale of a motor vehicle to a
18 nonresident of this state, if the purchaser's state of residence allows a
19 corresponding use tax exemption to the tax imposed by article 1 of this
20 chapter and the rate of the tax in the purchaser's state of residence is
21 lower than the rate prescribed in article 1 of this chapter, and the
22 nonresident has secured a special thirty day nonresident registration permit
23 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
24 be deducted from the tax base a portion of the gross proceeds or gross income
25 from the sale so that the amount of transaction privilege tax that is paid in
26 this state is equal to the excise tax that is imposed by the purchaser's
27 state of residence on the nonexempt sale or use of the motor vehicle.

28 V. For the purposes of this section:

29 1. "Aircraft" includes:

30 (a) An airplane flight simulator that is approved by the federal
31 aviation administration for use as a phase II or higher flight simulator
32 under appendix H, 14 Code of Federal Regulations part 121.

33 (b) Tangible personal property that is permanently affixed or attached
34 as a component part of an aircraft that is owned or operated by a
35 certificated or licensed carrier of persons or property.

36 2. "Other accessories and related equipment" includes aircraft
37 accessories and equipment such as ground service equipment that physically
38 contact aircraft at some point during the overall carrier operation.

39 3. "Selling at retail" means a sale for any purpose other than for
40 resale in the regular course of business in the form of tangible personal
41 property, but transfer of possession, lease and rental as used in the
42 definition of sale mean only such transactions as are found on investigation
43 to be in lieu of sales as defined without the words lease or rental.

44 W. For purposes of subsection J of this section:

1 1. "Assembler" means a person who unites or combines products, wares
2 or articles of manufacture so as to produce a change in form or substance
3 without changing or altering the component parts.

4 2. "Manufacturer" means a person who is principally engaged in the
5 fabrication, production or manufacture of products, wares or articles for use
6 from raw or prepared materials, imparting to those materials new forms,
7 qualities, properties and combinations.

8 3. "Modifier" means a person who reworks, changes or adds to products,
9 wares or articles of manufacture.

10 4. "Overhead materials" means tangible personal property, the gross
11 proceeds of sales or gross income derived from which would otherwise be
12 included in the retail classification, and which are used or consumed in the
13 performance of a contract, the cost of which is charged to an overhead
14 expense account and allocated to various contracts based upon generally
15 accepted accounting principles and consistent with government contract
16 accounting standards.

17 5. "Repairer" means a person who restores or renews products, wares or
18 articles of manufacture.

19 6. "Subcontract" means an agreement between a contractor and any
20 person who is not an employee of the contractor for furnishing of supplies or
21 services that, in whole or in part, are necessary to the performance of one
22 or more government contracts, or under which any portion of the contractor's
23 obligation under one or more government contracts is performed, undertaken or
24 assumed and that includes provisions causing title to overhead materials or
25 other tangible personal property used in the performance of the subcontract
26 to pass to the government or that includes provisions incorporating such
27 title passing clauses in a government contract into the subcontract.

28 Sec. 9. Section 42-5075, Arizona Revised Statutes, is amended to read:

29 42-5075. Prime contracting classification; exemptions;
30 definitions

31 A. The prime contracting classification is comprised of the business
32 of prime contracting and dealership of manufactured buildings. The sale of a
33 used manufactured building is not taxable under this chapter.

34 B. The tax base for the prime contracting classification is sixty-five
35 per cent of the gross proceeds of sales or gross income derived from the
36 business. The following amounts shall be deducted from the gross proceeds of
37 sales or gross income before computing the tax base:

38 1. The sales price of land, which shall not exceed the fair market
39 value.

40 2. Sales and installation of groundwater measuring devices required
41 under section 45-604 and groundwater monitoring wells required by law,
42 including monitoring wells installed for acquiring information for a permit
43 required by law.

44 3. The sales price of furniture, furnishings, fixtures, appliances,
45 and attachments that are not incorporated as component parts of or attached

1 to a manufactured building or the setup site. The sale of such items may be
2 subject to the taxes imposed by article 1 of this chapter separately and
3 distinctly from the sale of the manufactured building.

4 4. The gross proceeds of sales or gross income received from a
5 contract entered into for the construction, alteration, repair, addition,
6 subtraction, improvement, movement, wrecking or demolition of any building,
7 highway, road, railroad, excavation, manufactured building or other
8 structure, project, development or improvement located in a military reuse
9 zone for providing aviation or aerospace services or for a manufacturer,
10 assembler or fabricator of aviation or aerospace products within five years
11 after the zone is initially established or renewed under section 41-1531. To
12 qualify for this deduction, before beginning work under the contract the
13 prime contractor must obtain a letter of qualification from the department of
14 revenue.

15 5. The gross proceeds of sales or gross income derived from a contract
16 to construct a qualified environmental technology manufacturing, producing or
17 processing facility, as described in section 41-1514.02, and from subsequent
18 construction and installation contracts that begin within ten years after the
19 start of initial construction. To qualify for this deduction, before
20 beginning work under the contract the prime contractor must obtain a letter
21 of qualification from the department of revenue. This paragraph shall apply
22 for ten full consecutive calendar or fiscal years after the start of initial
23 construction.

24 6. The gross proceeds of sales or gross income from a contract to
25 provide for one or more of the following actions, or a contract for site
26 preparation, constructing, furnishing or installing machinery, equipment or
27 other tangible personal property, including structures necessary to protect
28 exempt incorporated materials or installed machinery or equipment, and
29 tangible personal property incorporated into the project, to perform one or
30 more of the following actions in response to a release or suspected release
31 of a hazardous substance, pollutant or contaminant from a facility to the
32 environment, unless the release was authorized by a permit issued by a
33 governmental authority:

34 (a) Actions to monitor, assess and evaluate such a release or a
35 suspected release.

36 (b) Excavation, removal and transportation of contaminated soil and
37 its treatment or disposal.

38 (c) Treatment of contaminated soil by vapor extraction, chemical or
39 physical stabilization, soil washing or biological treatment to reduce the
40 concentration, toxicity or mobility of a contaminant.

41 (d) Pumping and treatment or in situ treatment of contaminated
42 groundwater or surface water to reduce the concentration or toxicity of a
43 contaminant.

44 (e) The installation of structures, such as cutoff walls or caps, to
45 contain contaminants present in groundwater or soil and prevent them from

1 reaching a location where they could threaten human health or welfare or the
2 environment.

3 This paragraph does not include asbestos removal or the construction or use
4 of ancillary structures such as maintenance sheds, offices or storage
5 facilities for unattached equipment, pollution control equipment, facilities
6 or other control items required or to be used by a person to prevent or
7 control contamination before it reaches the environment.

8 7. The gross proceeds of sales or gross income that is derived from a
9 contract entered into for the installation, assembly, repair or maintenance
10 of machinery, equipment or other tangible personal property that is deducted
11 from the tax base of the retail classification pursuant to section 42-5061,
12 subsection B, or that is exempt from use tax pursuant to section 42-5159,
13 subsection B, and that does not become a permanent attachment to a building,
14 highway, road, railroad, excavation or manufactured building or other
15 structure, project, development or improvement. If the ownership of the
16 realty is separate from the ownership of the machinery, equipment or tangible
17 personal property, the determination as to permanent attachment shall be made
18 as if the ownership were the same. The deduction provided in this paragraph
19 does not include gross proceeds of sales or gross income from that portion of
20 any contracting activity which consists of the development of, or
21 modification to, real property in order to facilitate the installation,
22 assembly, repair, maintenance or removal of machinery, equipment or other
23 tangible personal property that is deducted from the tax base of the retail
24 classification pursuant to section 42-5061, subsection B or that is exempt
25 from use tax pursuant to section 42-5159, subsection B. For THE purposes of
26 this paragraph, "permanent attachment" means at least one of the following:

27 (a) To be incorporated into real property.

28 (b) To become so affixed to real property that it becomes a part of
29 the real property.

30 (c) To be so attached to real property that removal would cause
31 substantial damage to the real property from which it is removed.

32 8. The gross proceeds of sales or gross income received from a
33 contract for constructing any lake facility development in a commercial
34 enhancement reuse district that is designated pursuant to section 9-499.08 if
35 the prime contractor maintains the following records in a form satisfactory
36 to the department and to the city or town in which the property is located:

37 (a) The certificate of qualification of the lake facility development
38 issued by the city or town pursuant to section 9-499.08, subsection D.

39 (b) All state and local transaction privilege tax returns for the
40 period of time during which the prime contractor received gross proceeds of
41 sales or gross income from a contract to construct a lake facility
42 development in a designated commercial enhancement reuse district, showing
43 the amount exempted from state and local taxation.

44 (c) Any other information that the department considers to be
45 necessary.

1 9. The gross proceeds of sales or gross income attributable to the
2 purchase of machinery, equipment or other tangible personal property that is
3 exempt from or deductible from transaction privilege and use tax under:

4 (a) Section 42-5061, subsection A, paragraph 25 or 29.

5 (b) Section 42-5061, subsection B.

6 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b),
7 (c), (d), (e), (f), (i), (j) or (l).

8 (d) Section 42-5159, subsection B.

9 10. The gross proceeds of sales or gross income received from a
10 contract for the construction of an environmentally controlled facility for
11 the raising of poultry for the production of eggs and the sorting, cooling
12 and packaging of eggs.

13 11. The gross proceeds of sales or gross income that is derived from a
14 contract entered into with a person who is engaged in the commercial
15 production of livestock, livestock products or agricultural, horticultural,
16 viticultural or floricultural crops or products in this state for the
17 construction, alteration, repair, improvement, movement, wrecking or
18 demolition or addition to or subtraction from any building, highway, road,
19 excavation, manufactured building or other structure, project, development or
20 improvement used directly and primarily to prevent, monitor, control or
21 reduce air, water or land pollution.

22 12. The gross proceeds of sales or gross income that is derived from
23 the installation, assembly, repair or maintenance of clean rooms that are
24 deducted from the tax base of the retail classification pursuant to section
25 42-5061, subsection B, paragraph 17.

26 13. For taxable periods beginning from and after June 30, 2001, the
27 gross proceeds of sales or gross income derived from a contract entered into
28 for the construction of a residential apartment housing facility that
29 qualifies for a federal housing subsidy for low income persons over sixty-two
30 years of age and that is owned by a nonprofit charitable organization that
31 has qualified under section 501(c)(3) of the internal revenue code.

32 14. For taxable periods beginning from and after December 31, 1996 and
33 ending before January 1, 2011, the gross proceeds of sales or gross income
34 derived from a contract to provide and install a solar energy device. The
35 deduction shall not exceed five thousand dollars for each contract. Before
36 deducting any amount under this paragraph, the contractor shall register with
37 the department as a solar energy contractor. By registering, the contractor
38 acknowledges that it will make its books and records relating to sales of
39 solar energy devices available to the department for examination.

40 15. The gross proceeds of sales or gross income derived from a contract
41 entered into for the construction of a launch site, as defined in 14 Code of
42 Federal Regulations section 401.5.

43 16. The gross proceeds of sales or gross income derived from a contract
44 entered into for the construction of a domestic violence shelter that is

1 owned and operated by a nonprofit charitable organization that has qualified
2 under section 501(c)(3) of the internal revenue code.

3 17. The gross proceeds of sales or gross income derived from contracts
4 to perform postconstruction treatment of real property for termite and
5 general pest control, including wood destroying organisms.

6 18. The gross proceeds of sales or gross income received from contracts
7 entered into before July 1, 2006 for constructing a state university research
8 infrastructure project if the project has been reviewed by the joint
9 committee on capital review before the university enters into the
10 construction contract for the project. For the purposes of this paragraph,
11 "research infrastructure" has the same meaning prescribed in section 15-1670.

12 19. The gross proceeds of sales or gross income received from a
13 contract for the construction of any building, or other structure, project,
14 development or improvement owned by a qualified business UNDER SECTION
15 41-1516 for harvesting, ~~transporting~~ or the initial processing of QUALIFYING
16 forest products, ~~including biomass, as provided~~ REMOVED FROM QUALIFYING
17 PROJECTS AS DEFINED in section 41-1516 if actual construction begins before
18 January 1, 2010. To qualify for this deduction, the prime contractor must
19 obtain a letter of qualification from the department of commerce before
20 beginning work under the contract.

21 C. Entitlement to the deduction pursuant to subsection B, paragraph 7
22 of this section is subject to the following provisions:

23 1. A prime contractor may establish entitlement to the deduction by
24 both:

25 (a) Marking the invoice for the transaction to indicate that the gross
26 proceeds of sales or gross income derived from the transaction was deducted
27 from the base.

28 (b) Obtaining a certificate executed by the purchaser indicating the
29 name and address of the purchaser, the precise nature of the business of the
30 purchaser, the purpose for which the purchase was made, the necessary facts
31 to establish the deductibility of the property under section 42-5061,
32 subsection B, and a certification that the person executing the certificate
33 is authorized to do so on behalf of the purchaser. The certificate may be
34 disregarded if the prime contractor has reason to believe that the
35 information contained in the certificate is not accurate or complete.

36 2. A person who does not comply with paragraph 1 of this subsection
37 may establish entitlement to the deduction by presenting facts necessary to
38 support the entitlement, but the burden of proof is on that person.

39 3. The department may prescribe a form for the certificate described
40 in paragraph 1, subdivision (b) of this subsection. The department may also
41 adopt rules that describe the transactions with respect to which a person is
42 not entitled to rely solely on the information contained in the certificate
43 provided in paragraph 1, subdivision (b) of this subsection but must instead
44 obtain such additional information as required in order to be entitled to the
45 deduction.

1 4. If a prime contractor is entitled to a deduction by complying with
2 paragraph 1 of this subsection, the department may require the purchaser who
3 caused the execution of the certificate to establish the accuracy and
4 completeness of the information required to be contained in the certificate
5 which would entitle the prime contractor to the deduction. If the purchaser
6 cannot establish the accuracy and completeness of the information, the
7 purchaser is liable in an amount equal to any tax, penalty and interest which
8 the prime contractor would have been required to pay under article 1 of this
9 chapter if the prime contractor had not complied with paragraph 1 of this
10 subsection. Payment of the amount under this paragraph exempts the purchaser
11 from liability for any tax imposed under article 4 of this chapter. The
12 amount shall be treated as a transaction privilege tax to the purchaser and
13 as tax revenues collected from the prime contractor in order to designate the
14 distribution base for purposes of section 42-5029.

15 D. Subcontractors or others who perform services in respect to any
16 improvement, building, highway, road, railroad, excavation, manufactured
17 building or other structure, project, development or improvement are not
18 subject to tax if they can demonstrate that the job was within the control of
19 a prime contractor or contractors or a dealership of manufactured buildings
20 and that the prime contractor or dealership is liable for the tax on the
21 gross income, gross proceeds of sales or gross receipts attributable to the
22 job and from which the subcontractors or others were paid.

23 E. Amounts received by a contractor for a project are excluded from
24 the contractor's gross proceeds of sales or gross income derived from the
25 business if the person who hired the contractor executes and provides a
26 certificate to the contractor stating that the person providing the
27 certificate is a prime contractor and is liable for the tax under article 1
28 of this chapter. The department shall prescribe the form of the certificate.
29 If the contractor has reason to believe that the information contained on the
30 certificate is erroneous or incomplete, the department may disregard the
31 certificate. If the person who provides the certificate is not liable for
32 the tax as a prime contractor, that person is nevertheless deemed to be the
33 prime contractor in lieu of the contractor and is subject to the tax under
34 this section on the gross receipts or gross proceeds received by the
35 contractor.

36 F. Every person engaging or continuing in this state in the business
37 of prime contracting or dealership of manufactured buildings shall present to
38 the purchaser of such prime contracting or manufactured building a written
39 receipt of the gross income or gross proceeds of sales from such activity and
40 shall separately state the taxes to be paid pursuant to this section.

41 G. For purposes of section 42-5032.01, the department shall separately
42 account for revenues collected under the prime contracting classification
43 from any prime contractor engaged in the preparation or construction of a
44 multipurpose facility, and related infrastructure, that is owned, operated or
45 leased by the tourism and sports authority pursuant to title 5, chapter 8.

1 H. The gross proceeds of sales or gross income derived from a contract
2 for lawn maintenance services are not subject to tax under this section if
3 the contract does not include landscaping activities. Lawn maintenance
4 service is a service pursuant to section 42-5061, subsection A, paragraph 1,
5 and includes lawn mowing and edging, weeding, repairing sprinkler heads or
6 drip irrigation heads, seasonal replacement of flowers, refreshing gravel,
7 lawn de-thatching, seeding winter lawns, leaf and debris collection and
8 removal, tree or shrub pruning or clipping, garden and gravel raking and
9 applying pesticides, as defined in section 3-361, and fertilizer materials,
10 as defined in section 3-262.

11 I. The gross proceeds of sales or gross income derived from
12 landscaping activities are subject to tax under this section. Landscaping
13 includes installing lawns, grading or leveling ground, installing gravel or
14 boulders, planting trees and other plants, felling trees, removing or
15 mulching tree stumps, removing other imbedded plants, building or modifying
16 irrigation berms, repairing sprinkler or watering systems, installing
17 railroad ties and installing underground sprinkler or watering systems.

18 J. The portion of gross proceeds of sales or gross income attributable
19 to the actual direct costs of providing architectural or engineering services
20 that are incorporated in a contract are not subject to tax under this
21 section. For the purposes of this subsection, "direct costs" means the
22 portion of the actual costs that are directly expended in providing
23 architectural or engineering services.

24 K. For the purposes of this section:

25 1. "Contracting" means engaging in business as a contractor.

26 2. "Contractor" is synonymous with the term "builder" and means any
27 person, firm, partnership, corporation, association or other organization, or
28 a combination of any of them, that undertakes to or offers to undertake to,
29 or purports to have the capacity to undertake to, or submits a bid to, or
30 does personally or by or through others, construct, alter, repair, add to,
31 subtract from, improve, move, wreck or demolish any building, highway, road,
32 railroad, excavation, manufactured building or other structure, project,
33 development or improvement, or to do any part of such a project, including
34 the erection of scaffolding or other structure or works in connection with
35 such a project, and includes subcontractors and specialty contractors. For
36 all purposes of taxation or deduction, this definition shall govern without
37 regard to whether or not such contractor is acting in fulfillment of a
38 contract.

39 3. "Dealership of manufactured buildings" means a dealer who either:

40 (a) Is licensed pursuant to title 41, chapter 16 and who sells at
41 retail manufactured buildings.

42 (b) Supervises, performs or coordinates the excavation and completion
43 of site improvements, setup or moving of a manufactured building including
44 the contracting, if any, with any subcontractor or specialty contractor for
45 the completion of the contract.

1 4. "Manufactured building" means a manufactured home, mobile home or
2 factory-built building, as defined in section 41-2142.

3 5. "Prime contracting" means engaging in business as a prime
4 contractor.

5 6. "Prime contractor" means a contractor who supervises, performs or
6 coordinates the construction, alteration, repair, addition, subtraction,
7 improvement, movement, wreckage or demolition of any building, highway, road,
8 railroad, excavation, manufactured building or other structure, project,
9 development or improvement including the contracting, if any, with any
10 subcontractors or specialty contractors and who is responsible for the
11 completion of the contract.

12 7. "Sale of a used manufactured building" does not include a lease of
13 a used manufactured building.

14 Sec. 10. Section 42-5159, Arizona Revised Statutes, is amended to
15 read:

16 42-5159. Exemptions

17 A. The tax levied by this article does not apply to the storage, use
18 or consumption in this state of the following described tangible personal
19 property:

20 1. Tangible personal property sold in this state, the gross receipts
21 from the sale of which are included in the measure of the tax imposed by
22 articles 1 and 2 of this chapter.

23 2. Tangible personal property the sale or use of which has already
24 been subjected to an excise tax at a rate equal to or exceeding the tax
25 imposed by this article under the laws of another state of the United
26 States. If the excise tax imposed by the other state is at a rate less than
27 the tax imposed by this article, the tax imposed by this article is reduced
28 by the amount of the tax already imposed by the other state.

29 3. Tangible personal property, the storage, use or consumption of
30 which the constitution or laws of the United States prohibit this state from
31 taxing or to the extent that the rate or imposition of tax is
32 unconstitutional under the laws of the United States.

33 4. Tangible personal property which directly enters into and becomes
34 an ingredient or component part of any manufactured, fabricated or processed
35 article, substance or commodity for sale in the regular course of business.

36 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
37 which in this state is subject to the tax imposed under the provisions of
38 title 28, chapter 16, article 1, use fuel which is sold to or used by a
39 person holding a valid single trip use fuel tax permit issued under section
40 28-5739, aviation fuel, the sales, distribution or use of which in this state
41 is subject to the tax imposed under section 28-8344, and jet fuel, the sales,
42 distribution or use of which in this state is subject to the tax imposed
43 under article 8 of this chapter.

44 6. Tangible personal property brought into this state by an individual
45 who was a nonresident at the time the property was purchased for storage, use

1 or consumption by the individual if the first actual use or consumption of
2 the property was outside this state, unless the property is used in
3 conducting a business in this state.

4 7. Purchases of implants used as growth promotants and injectable
5 medicines, not already exempt under paragraph 16 of this subsection, for
6 livestock and poultry owned by, or in possession of, persons who are engaged
7 in producing livestock, poultry, or livestock or poultry products, or who are
8 engaged in feeding livestock or poultry commercially. For purposes of this
9 paragraph, "poultry" includes ratites.

10 8. Livestock, poultry, supplies, feed, salts, vitamins and other
11 additives for use or consumption in the businesses of farming, ranching and
12 feeding livestock or poultry, not including fertilizers, herbicides and
13 insecticides. For purposes of this paragraph, "poultry" includes ratites.

14 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative
15 material for use in commercially producing agricultural, horticultural,
16 viticultural or floricultural crops in this state.

17 10. Tangible personal property not exceeding two hundred dollars in any
18 one month purchased by an individual at retail outside the continental limits
19 of the United States for the individual's own personal use and enjoyment.

20 11. Advertising supplements which are intended for sale with newspapers
21 published in this state and which have already been subjected to an excise
22 tax under the laws of another state in the United States which equals or
23 exceeds the tax imposed by this article.

24 12. Materials that are purchased by or for publicly funded libraries
25 including school district libraries, charter school libraries, community
26 college libraries, state university libraries or federal, state, county or
27 municipal libraries for use by the public as follows:

28 (a) Printed or photographic materials, beginning August 7, 1985.

29 (b) Electronic or digital media materials, beginning July 17, 1994.

30 13. Tangible personal property purchased by:

31 (a) A hospital organized and operated exclusively for charitable
32 purposes, no part of the net earnings of which inures to the benefit of any
33 private shareholder or individual.

34 (b) A hospital operated by this state or a political subdivision of
35 this state.

36 (c) A licensed nursing care institution or a licensed residential care
37 institution or a residential care facility operated in conjunction with a
38 licensed nursing care institution or a licensed kidney dialysis center, which
39 provides medical services, nursing services or health related services and is
40 not used or held for profit.

41 (d) A qualifying health care organization, as defined in section
42 42-5001, if the tangible personal property is used by the organization solely
43 to provide health and medical related educational and charitable services.

44 (e) A qualifying health care organization as defined in section
45 42-5001 if the organization is dedicated to providing educational,

1 therapeutic, rehabilitative and family medical education training for blind,
2 visually impaired and multihandicapped children from the time of birth to age
3 twenty-one.

4 (f) A nonprofit charitable organization that has qualified under
5 section 501(c)(3) of the United States internal revenue code and that engages
6 in and uses such property exclusively for training, job placement or
7 rehabilitation programs or testing for mentally or physically handicapped
8 persons.

9 (g) A person that is subject to tax under article 1 of this chapter by
10 reason of being engaged in business classified under the prime contracting
11 classification under section 42-5075, or a subcontractor working under the
12 control of a prime contractor, if the tangible personal property is any of
13 the following:

14 (i) Incorporated or fabricated by the contractor into a structure,
15 project, development or improvement in fulfillment of a contract.

16 (ii) Used in environmental response or remediation activities under
17 section 42-5075, subsection B, paragraph 6.

18 (iii) Incorporated or fabricated by the person into any lake facility
19 development in a commercial enhancement reuse district under conditions
20 prescribed for the deduction allowed by section 42-5075, subsection B,
21 paragraph 8.

22 (h) A nonprofit charitable organization that has qualified under
23 section 501(c)(3) of the internal revenue code if the property is purchased
24 from the parent or an affiliate organization that is located outside this
25 state.

26 (i) A qualifying community health center as defined in section
27 42-5001.

28 (j) A nonprofit charitable organization that has qualified under
29 section 501(c)(3) of the internal revenue code and that regularly serves
30 meals to the needy and indigent on a continuing basis at no cost.

31 (k) A person engaged in business under the transient lodging
32 classification if the property is a personal hygiene item or articles used by
33 human beings for food, drink or condiment, except alcoholic beverages, which
34 are furnished without additional charge to and intended to be consumed by the
35 transient during the transient's occupancy.

36 (l) For taxable periods beginning from and after June 30, 2001, a
37 nonprofit charitable organization that has qualified under section 501(c)(3)
38 of the internal revenue code and that provides residential apartment housing
39 for low income persons over sixty-two years of age in a facility that
40 qualifies for a federal housing subsidy, if the tangible personal property is
41 used by the organization solely to provide residential apartment housing for
42 low income persons over sixty-two years of age in a facility that qualifies
43 for a federal housing subsidy.

44 14. Commodities, as defined by title 7 United States Code section 2,
45 that are consigned for resale in a warehouse in this state in or from which

1 the commodity is deliverable on a contract for future delivery subject to the
2 rules of a commodity market regulated by the United States commodity futures
3 trading commission.

4 15. Tangible personal property sold by:

5 (a) Any nonprofit organization organized and operated exclusively for
6 charitable purposes and recognized by the United States internal revenue
7 service under section 501(c)(3) of the internal revenue code.

8 (b) A nonprofit organization that is exempt from taxation under
9 section 501(c)(3) or 501(c)(6) of the internal revenue code if the
10 organization is associated with a major league baseball team or a national
11 touring professional golfing association and no part of the organization's
12 net earnings inures to the benefit of any private shareholder or individual.

13 (c) A nonprofit organization that is exempt from taxation under
14 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the
15 internal revenue code if the organization sponsors or operates a rodeo
16 featuring primarily farm and ranch animals and no part of the organization's
17 net earnings inures to the benefit of any private shareholder or individual.

18 16. Drugs and medical oxygen, including delivery hose, mask or tent,
19 regulator and tank, on the prescription of a member of the medical, dental or
20 veterinarian profession who is licensed by law to administer such substances.

21 17. Prosthetic appliances, as defined in section 23-501, prescribed or
22 recommended by a person who is licensed, registered or otherwise
23 professionally credentialed as a physician, dentist, podiatrist,
24 chiropractor, naturopath, homeopath, nurse or optometrist.

25 18. Prescription eyeglasses and contact lenses.

26 19. Insulin, insulin syringes and glucose test strips.

27 20. Hearing aids as defined in section 36-1901.

28 21. Durable medical equipment which has a centers for medicare and
29 medicaid services common procedure code, is designated reimbursable by
30 medicare, is prescribed by a person who is licensed under title 32, chapter
31 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily
32 used to serve a medical purpose, is generally not useful to a person in the
33 absence of illness or injury and is appropriate for use in the home.

34 22. Food, as provided in and subject to the conditions of article 3 of
35 this chapter and section 42-5074.

36 23. Items purchased with United States department of agriculture food
37 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
38 958) or food instruments issued under section 17 of the child nutrition act
39 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
40 section 1786).

41 24. Food and drink provided without monetary charge by a taxpayer which
42 is subject to section 42-5074 to its employees for their own consumption on
43 the premises during the employees' hours of employment.

1 25. Tangible personal property that is used or consumed in a business
2 subject to section 42-6074 for human food, drink or condiment, whether
3 simple, mixed or compounded.

4 26. Food, drink or condiment and accessory tangible personal property
5 if they are to be prepared and served to persons for consumption on the
6 premises of a public school in a school district during school hours.

7 27. Lottery tickets or shares purchased pursuant to title 5, chapter 5,
8 article 1.

9 28. Textbooks, sold by a bookstore, that are required by any state
10 university or community college.

11 29. Magazines, other periodicals or other publications produced by this
12 state to encourage tourist travel.

13 30. Paper machine clothing, such as forming fabrics and dryer felts,
14 purchased by a paper manufacturer and directly used or consumed in paper
15 manufacturing.

16 31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
17 purchased by a qualified environmental technology manufacturer, producer or
18 processor as defined in section 41-1514.02 and directly used or consumed in
19 the generation or provision of on-site power or energy solely for
20 environmental technology manufacturing, producing or processing or
21 environmental protection. This paragraph shall apply for fifteen full
22 consecutive calendar or fiscal years from the date the first paper
23 manufacturing machine is placed in service. In the case of an environmental
24 technology manufacturer, producer or processor who does not manufacture
25 paper, the time period shall begin with the date the first manufacturing,
26 processing or production equipment is placed in service.

27 32. Motor vehicles that are removed from inventory by a motor vehicle
28 dealer as defined in section 28-4301 and that are provided to:

29 (a) Charitable or educational institutions that are exempt from
30 taxation under section 501(c)(3) of the internal revenue code.

31 (b) Public educational institutions.

32 (c) State universities or affiliated organizations of a state
33 university if no part of the organization's net earnings inures to the
34 benefit of any private shareholder or individual.

35 33. Natural gas or liquefied petroleum gas used to propel a motor
36 vehicle.

37 34. Machinery, equipment, technology or related supplies that are only
38 useful to assist a person who is physically disabled as defined in section
39 46-191, has a developmental disability as defined in section 36-551 or has a
40 head injury as defined in section 41-3201 to be more independent and
41 functional.

42 35. Liquid, solid or gaseous chemicals used in manufacturing,
43 processing, fabricating, mining, refining, metallurgical operations, research
44 and development and, beginning on January 1, 1999, printing, if using or
45 consuming the chemicals, alone or as part of an integrated system of

1 chemicals, involves direct contact with the materials from which the product
2 is produced for the purpose of causing or permitting a chemical or physical
3 change to occur in the materials as part of the production process. This
4 paragraph does not include chemicals that are used or consumed in activities
5 such as packaging, storage or transportation but does not affect any
6 exemption for such chemicals that is otherwise provided by this section. For
7 the purposes of this paragraph, "printing" means a commercial printing
8 operation and includes job printing, engraving, embossing, copying and
9 bookbinding.

10 36. Food, drink and condiment purchased for consumption within the
11 premises of any prison, jail or other institution under the jurisdiction of
12 the state department of corrections, the department of public safety, the
13 department of juvenile corrections or a county sheriff.

14 37. A motor vehicle and any repair and replacement parts and tangible
15 personal property becoming a part of such motor vehicle sold to a motor
16 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
17 and who is engaged in the business of leasing or renting such property.

18 38. Tangible personal property which is or directly enters into and
19 becomes an ingredient or component part of cards used as prescription plan
20 identification cards.

21 39. Overhead materials or other tangible personal property that is used
22 in performing a contract between the United States government and a
23 manufacturer, modifier, assembler or repairer, including property used in
24 performing a subcontract with a government contractor who is a manufacturer,
25 modifier, assembler or repairer, to which title passes to the government
26 under the terms of the contract or subcontract. For purposes of this
27 paragraph:

28 (a) "Overhead materials" means tangible personal property, the gross
29 proceeds of sales or gross income derived from which would otherwise be
30 included in the retail classification, and which are used or consumed in the
31 performance of a contract, the cost of which is charged to an overhead
32 expense account and allocated to various contracts based upon generally
33 accepted accounting principles and consistent with government contract
34 accounting standards.

35 (b) "Subcontract" means an agreement between a contractor and any
36 person who is not an employee of the contractor for furnishing of supplies or
37 services that, in whole or in part, are necessary to the performance of one
38 or more government contracts, or under which any portion of the contractor's
39 obligation under one or more government contracts is performed, undertaken or
40 assumed, and that includes provisions causing title to overhead materials or
41 other tangible personal property used in the performance of the subcontract
42 to pass to the government or that includes provisions incorporating such
43 title passing clauses in a government contract into the subcontract.

44 40. Through December 31, 1994, tangible personal property sold pursuant
45 to a personal property liquidation transaction, as defined in section

1 42-5061. From and after December 31, 1994, tangible personal property sold
2 pursuant to a personal property liquidation transaction, as defined in
3 section 42-5061, if the gross proceeds of the sales were included in the
4 measure of the tax imposed by article 1 of this chapter or if the personal
5 property liquidation was a casual activity or transaction.

6 41. Wireless telecommunications equipment that is held for sale or
7 transfer to a customer as an inducement to enter into or continue a contract
8 for telecommunications services that are taxable under section 42-5064.

9 42. Alternative fuel, as defined in section 1-215, purchased by a used
10 oil fuel burner who has received a permit to burn used oil or used oil fuel
11 under section 49-426 or 49-480.

12 43. Tangible personal property purchased by a commercial airline and
13 consisting of food, beverages and condiments and accessories used for serving
14 the food and beverages, if those items are to be provided without additional
15 charge to passengers for consumption in flight. For purposes of this
16 paragraph, "commercial airline" means a person holding a federal certificate
17 of public convenience and necessity or foreign air carrier permit for air
18 transportation to transport persons, property or United States mail in
19 intrastate, interstate or foreign commerce.

20 44. Alternative fuel vehicles, ~~as defined in section 43-1086~~, if the
21 vehicle was manufactured as a diesel fuel vehicle and converted to operate on
22 alternative fuel and equipment that is installed in a conventional diesel
23 fuel motor vehicle to convert the vehicle to operate on an alternative fuel,
24 as defined in section 1-215.

25 45. Gas diverted from a pipeline, by a person engaged in the business
26 of operating a natural or artificial gas pipeline, and used or consumed for
27 the sole purpose of fueling compressor equipment that pressurizes the
28 pipeline.

29 46. Tangible personal property that is excluded, exempt or deductible
30 from transaction privilege tax pursuant to section 42-5063.

31 47. Tangible personal property purchased to be incorporated or
32 installed as part of environmental response or remediation activities under
33 section 42-5075, subsection B, paragraph 6.

34 48. Tangible personal property sold by a nonprofit organization that
35 is exempt from taxation under section 501(c)(6) of the internal revenue code
36 if the organization produces, organizes or promotes cultural or civic related
37 festivals or events and no part of the organization's net earnings inures to
38 the benefit of any private shareholder or individual.

39 B. In addition to the exemptions allowed by subsection A of this
40 section, the following categories of tangible personal property are also
41 exempt:

42 1. Machinery, or equipment, used directly in manufacturing,
43 processing, fabricating, job printing, refining or metallurgical operations.
44 The terms "manufacturing", "processing", "fabricating", "job printing",
45 "refining" and "metallurgical" as used in this paragraph refer to and include

1 those operations commonly understood within their ordinary meaning.
2 "Metallurgical operations" includes leaching, milling, precipitating,
3 smelting and refining.

4 2. Machinery, or equipment, used directly in the process of extracting
5 ores or minerals from the earth for commercial purposes, including equipment
6 required to prepare the materials for extraction and handling, loading or
7 transporting such extracted material to the surface. "Mining" includes
8 underground, surface and open pit operations for extracting ores and
9 minerals.

10 3. Tangible personal property sold to persons engaged in business
11 classified under the telecommunications classification under section 42-5064
12 and consisting of central office switching equipment, switchboards, private
13 branch exchange equipment, microwave radio equipment and carrier equipment
14 including optical fiber, coaxial cable and other transmission media which are
15 components of carrier systems.

16 4. Machinery, equipment or transmission lines used directly in
17 producing or transmitting electrical power, but not including distribution.
18 Transformers and control equipment used at transmission substation sites
19 constitute equipment used in producing or transmitting electrical power.

20 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or
21 to be used as breeding or production stock, including sales of breedings or
22 ownership shares in such animals used for breeding or production.

23 6. Pipes or valves four inches in diameter or larger used to transport
24 oil, natural gas, artificial gas, water or coal slurry, including compressor
25 units, regulators, machinery and equipment, fittings, seals and any other
26 part that is used in operating the pipes or valves.

27 7. Aircraft, navigational and communication instruments and other
28 accessories and related equipment sold to:

29 (a) A person holding a federal certificate of public convenience and
30 necessity, a supplemental air carrier certificate under federal aviation
31 regulations (14 Code of Federal Regulations part 121) or a foreign air
32 carrier permit for air transportation for use as or in conjunction with or
33 becoming a part of aircraft to be used to transport persons, property or
34 United States mail in intrastate, interstate or foreign commerce.

35 (b) Any foreign government for use by such government outside of this
36 state, or sold to persons who are not residents of this state and who will
37 not use such property in this state other than in removing such property from
38 this state.

39 8. Machinery, tools, equipment and related supplies used or consumed
40 directly in repairing, remodeling or maintaining aircraft, aircraft engines
41 or aircraft component parts by or on behalf of a certificated or licensed
42 carrier of persons or property.

43 9. Rolling stock, rails, ties and signal control equipment used
44 directly to transport persons or property.

1 10. Machinery or equipment used directly to drill for oil or gas or
2 used directly in the process of extracting oil or gas from the earth for
3 commercial purposes.

4 11. Buses or other urban mass transit vehicles which are used directly
5 to transport persons or property for hire or pursuant to a governmentally
6 adopted and controlled urban mass transportation program and which are sold
7 to bus companies holding a federal certificate of convenience and necessity
8 or operated by any city, town or other governmental entity or by any person
9 contracting with such governmental entity as part of a governmentally adopted
10 and controlled program to provide urban mass transportation.

11 12. Groundwater measuring devices required under section 45-604.

12 13. New machinery and equipment consisting of tractors, tractor-drawn
13 implements, self-powered implements, machinery and equipment necessary for
14 extracting milk, and machinery and equipment necessary for cooling milk and
15 livestock, and drip irrigation lines not already exempt under paragraph 6 of
16 this subsection and that are used for commercial production of agricultural,
17 horticultural, viticultural and floricultural crops and products in this
18 state. In this paragraph:

19 (a) "New machinery and equipment" means machinery or equipment which
20 has never been sold at retail except pursuant to leases or rentals which do
21 not total two years or more.

22 (b) "Self-powered implements" includes machinery and equipment that
23 are electric-powered.

24 14. Machinery or equipment used in research and development. In this
25 paragraph, "research and development" means basic and applied research in the
26 sciences and engineering, and designing, developing or testing prototypes,
27 processes or new products, including research and development of computer
28 software that is embedded in or an integral part of the prototype or new
29 product or that is required for machinery or equipment otherwise exempt under
30 this section to function effectively. Research and development do not
31 include manufacturing quality control, routine consumer product testing,
32 market research, sales promotion, sales service, research in social sciences
33 or psychology, computer software research that is not included in the
34 definition of research and development, or other nontechnological activities
35 or technical services.

36 15. Machinery and equipment that are purchased by or on behalf of the
37 owners of a soundstage complex and primarily used for motion picture,
38 multimedia or interactive video production in the complex. This paragraph
39 applies only if the initial construction of the soundstage complex begins
40 after June 30, 1996 and before January 1, 2002 and the machinery and
41 equipment are purchased before the expiration of five years after the start
42 of initial construction. For purposes of this paragraph:

43 (a) "Motion picture, multimedia or interactive video production"
44 includes products for theatrical and television release, educational
45 presentations, electronic retailing, documentaries, music videos, industrial

1 films, CD-ROM, video game production, commercial advertising and television
2 episode production and other genres that are introduced through developing
3 technology.

4 (b) "Soundstage complex" means a facility of multiple stages including
5 production offices, construction shops and related areas, prop and costume
6 shops, storage areas, parking for production vehicles and areas that are
7 leased to businesses that complement the production needs and orientation of
8 the overall facility.

9 16. Tangible personal property that is used by either of the following
10 to receive, store, convert, produce, generate, decode, encode, control or
11 transmit telecommunications information:

12 (a) Any direct broadcast satellite television or data transmission
13 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
14 100.

15 (b) Any satellite television or data transmission facility, if both of
16 the following conditions are met:

17 (i) Over two-thirds of the transmissions, measured in megabytes,
18 transmitted by the facility during the test period were transmitted to or on
19 behalf of one or more direct broadcast satellite television or data
20 transmission services that operate pursuant to 47 Code of Federal Regulations
21 parts 25 and 100.

22 (ii) Over two-thirds of the transmissions, measured in megabytes,
23 transmitted by or on behalf of those direct broadcast television or data
24 transmission services during the test period were transmitted by the facility
25 to or on behalf of those services.

26 For purposes of subdivision (b) of this paragraph, "test period" means the
27 three hundred sixty-five day period beginning on the later of the date on
28 which the tangible personal property is purchased or the date on which the
29 direct broadcast satellite television or data transmission service first
30 transmits information to its customers.

31 17. Clean rooms that are used for manufacturing, processing,
32 fabrication or research and development, as defined in paragraph 14 of this
33 subsection, of semiconductor products. For purposes of this paragraph,
34 "clean room" means all property that comprises or creates an environment
35 where humidity, temperature, particulate matter and contamination are
36 precisely controlled within specified parameters, without regard to whether
37 the property is actually contained within that environment or whether any of
38 the property is affixed to or incorporated into real property. Clean room:

39 (a) Includes the integrated systems, fixtures, piping, movable
40 partitions, lighting and all property that is necessary or adapted to reduce
41 contamination or to control airflow, temperature, humidity, chemical purity
42 or other environmental conditions or manufacturing tolerances, as well as the
43 production machinery and equipment operating in conjunction with the clean
44 room environment.

1 (b) Does not include the building or other permanent, nonremovable
2 component of the building that houses the clean room environment.

3 18. Machinery and equipment that are used directly in the feeding of
4 poultry, the environmental control of housing for poultry, the movement of
5 eggs within a production and packaging facility or the sorting or cooling of
6 eggs. This exemption does not apply to vehicles used for transporting eggs.

7 19. Machinery or equipment, including related structural components,
8 that is employed in connection with manufacturing, processing, fabricating,
9 job printing, refining, mining, natural gas pipelines, metallurgical
10 operations, telecommunications, producing or transmitting electricity or
11 research and development and that is used directly to meet or exceed rules or
12 regulations adopted by the federal energy regulatory commission, the United
13 States environmental protection agency, the United States nuclear regulatory
14 commission, the Arizona department of environmental quality or a political
15 subdivision of this state to prevent, monitor, control or reduce land, water
16 or air pollution.

17 20. Machinery and equipment that are used in the commercial production
18 of livestock, livestock products or agricultural, horticultural, viticultural
19 or floricultural crops or products in this state and that are used directly
20 and primarily to prevent, monitor, control or reduce air, water or land
21 pollution.

22 21. Machinery or equipment that enables a television station to
23 originate and broadcast or to receive and broadcast digital television
24 signals and that was purchased to facilitate compliance with the
25 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
26 Code section 336) and the federal communications commission order issued
27 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
28 not exempt any of the following:

29 (a) Repair or replacement parts purchased for the machinery or
30 equipment described in this paragraph.

31 (b) Machinery or equipment purchased to replace machinery or equipment
32 for which an exemption was previously claimed and taken under this paragraph.

33 (c) Any machinery or equipment purchased after the television station
34 has ceased analog broadcasting, or purchased after November 1, 2009,
35 whichever occurs first.

36 22. Qualifying equipment that is purchased from and after June 30, 2004
37 through June 30, 2014 by a qualified business UNDER SECTION 41-1516 for
38 harvesting, ~~transporting~~ or the initial processing of QUALIFYING forest
39 products, ~~including biomass, as provided~~ REMOVED FROM QUALIFYING PROJECTS AS
40 DEFINED in section 41-1516. To qualify for this exemption, the qualified
41 business must obtain and present its certification from the department of
42 commerce at the time of purchase.

43 C. The exemptions provided by subsection B of this section do not
44 include:

1 1. Expendable materials. For purposes of this paragraph, expendable
2 materials do not include any of the categories of tangible personal property
3 specified in subsection B of this section regardless of the cost or useful
4 life of that property.

5 2. Janitorial equipment and hand tools.

6 3. Office equipment, furniture and supplies.

7 4. Tangible personal property used in selling or distributing
8 activities, other than the telecommunications transmissions described in
9 subsection B, paragraph 16 of this section.

10 5. Motor vehicles required to be licensed by this state, except buses
11 or other urban mass transit vehicles specifically exempted pursuant to
12 subsection B, paragraph 11 of this section, without regard to the use of such
13 motor vehicles.

14 6. Shops, buildings, docks, depots and all other materials of whatever
15 kind or character not specifically included as exempt.

16 7. Motors and pumps used in drip irrigation systems.

17 D. The following shall be deducted in computing the purchase price of
18 electricity by a retail electric customer from a utility business:

19 1. Revenues received from sales of ancillary services, electric
20 distribution services, electric generation services, electric transmission
21 services and other services related to providing electricity to a retail
22 electric customer who is located outside this state for use outside this
23 state if the electricity is delivered to a point of sale outside this state.

24 2. Revenues received from providing electricity, including ancillary
25 services, electric distribution services, electric generation services,
26 electric transmission services and other services related to providing
27 electricity with respect to which the transaction privilege tax imposed under
28 section 42-5063 has been paid.

29 E. The tax levied by this article does not apply to:

30 1. The storage, use or consumption in Arizona of machinery, equipment,
31 materials or other tangible personal property if used directly and
32 predominantly to construct a qualified environmental technology
33 manufacturing, producing or processing facility, as described in section
34 41-1514.02. This paragraph applies for ten full consecutive calendar or
35 fiscal years after the start of initial construction.

36 2. The purchase of electricity by a qualified environmental technology
37 manufacturer, producer or processor as defined in section 41-1514.02 that is
38 used directly in environmental technology manufacturing, producing or
39 processing. This paragraph shall apply for fifteen full consecutive calendar
40 or fiscal years from the date the first paper manufacturing machine is placed
41 in service. In the case of an environmental technology manufacturer,
42 producer or processor who does not manufacture paper, the time period shall
43 begin with the date the first manufacturing, processing or production
44 equipment is placed in service.

1 F. The following shall be deducted in computing the purchase price of
2 electricity by a retail electric customer from a utility business:

3 1. Fees charged by a municipally owned utility to persons constructing
4 residential, commercial or industrial developments or connecting residential,
5 commercial or industrial developments to a municipal utility system or
6 systems if the fees are segregated and used only for capital expansion,
7 system enlargement or debt service of the utility system or systems.

8 2. Reimbursement or contribution compensation to any person or persons
9 owning a utility system for property and equipment installed to provide
10 utility access to, on or across the land of an actual utility consumer if the
11 property and equipment become the property of the utility. This deduction
12 shall not exceed the value of such property and equipment.

13 G. For the purposes of subsection B of this section:

14 1. "Aircraft" includes:

15 (a) An airplane flight simulator that is approved by the federal
16 aviation administration for use as a phase II or higher flight simulator
17 under appendix H, 14 Code of Federal Regulations part 121.

18 (b) Tangible personal property that is permanently affixed or attached
19 as a component part of an aircraft that is owned or operated by a
20 certificated or licensed carrier of persons or property.

21 2. "Other accessories and related equipment" includes aircraft
22 accessories and equipment such as ground service equipment that physically
23 contact aircraft at some point during the overall carrier operation.

24 H. For purposes of subsection D of this section, "ancillary services",
25 "electric distribution service", "electric generation service", "electric
26 transmission service" and "other services" have the same meanings prescribed
27 in section 42-5063.

28 Sec. 11. Section 42-12006, Arizona Revised Statutes, is amended to
29 read:

30 42-12006. Class six property

31 For purposes of taxation, class six is established consisting of:

32 1. Noncommercial historic property as defined in section 42-12101 and
33 valued at full cash value.

34 2. Real and personal property that is located within the area of a
35 foreign trade zone or subzone established under 19 United States Code section
36 81 and title 44, chapter 18, that is activated for foreign trade zone use by
37 the district director of the United States customs service pursuant to 19
38 Code of Federal Regulations section 146.6 and that is valued at full cash
39 value. PROPERTY THAT IS CLASSIFIED UNDER THIS PARAGRAPH SHALL NOT THEREAFTER
40 BE CLASSIFIED UNDER PARAGRAPH 7 OF THIS SECTION.

41 3. Real and personal property and improvements that are located in a
42 military reuse zone that is established under title 41, chapter 10, article 3
43 and that is devoted to providing aviation or aerospace services or to
44 manufacturing, assembling or fabricating aviation or aerospace products,
45 valued at full cash value and subject to the following terms and conditions:

1 (a) Property may not be classified under this paragraph for more than
2 five tax years.

3 (b) Any new addition or improvement to property already classified
4 under this paragraph qualifies separately for classification under this
5 paragraph for not more than five tax years.

6 (c) If a military reuse zone is terminated, the property in that zone
7 that was previously classified under this paragraph shall be reclassified as
8 prescribed by this article.

9 (d) Property that is classified under this paragraph shall not
10 thereafter be classified under paragraph 4 OR 7 of this section,
11 ~~notwithstanding its location in an enterprise zone.~~

12 4. Real and personal property and improvements that are located in an
13 enterprise zone, that are owned or used by a small manufacturing business
14 that is certified by the department of commerce pursuant to section
15 41-1525.01 and that are valued at full cash value, subject to the following
16 terms and conditions:

17 (a) Property may not be classified under this paragraph for more than
18 five tax years.

19 (b) Property that is classified under this paragraph shall not
20 thereafter be classified under paragraph 3 OR 7 of this section,
21 ~~notwithstanding its location in a military reuse zone.~~

22 5. Real and personal property and improvements or a portion of such
23 property comprising a qualified environmental technology manufacturing,
24 producing or processing facility as described in section 41-1514.02, valued
25 at full cash value and subject to the following terms and conditions:

26 (a) Property shall be classified under this paragraph for twenty tax
27 years from the date placed in service.

28 (b) Any addition or improvement to property already classified under
29 this paragraph qualifies separately for classification under this subdivision
30 for an additional twenty tax years from the date placed in service.

31 (c) After revocation of certification under section 41-1514.02,
32 property that was previously classified under this paragraph shall be
33 reclassified as prescribed by this article.

34 (d) PROPERTY THAT IS CLASSIFIED UNDER THIS PARAGRAPH SHALL NOT
35 THEREAFTER BE CLASSIFIED UNDER PARAGRAPH 7 OF THIS SECTION.

36 6. That portion of real and personal property that is used on or after
37 January 1, 1999 specifically and solely for remediation of the environment by
38 an action that has been determined to be reasonable and necessary to respond
39 to the release or threatened release of a hazardous substance by the
40 department of environmental quality pursuant to section 49-282.06 or pursuant
41 to its corrective action authority under rules adopted pursuant to section
42 49-922, subsection B, paragraph 4 or by the United States environmental
43 protection agency pursuant to the national contingency plan (40 Code of
44 Federal Regulations part 300) and that is valued at full cash
45 value. Property that is not being used specifically and solely for the

1 remediation objectives described in this paragraph shall not be classified
2 under this paragraph. For THE purposes of this paragraph, "remediation of
3 the environment" means one or more of the following actions:

4 (a) Monitoring, assessing or evaluating the release or threatened
5 release.

6 (b) Excavating, removing, transporting, treating and disposing of
7 contaminated soil.

8 (c) Pumping and treating contaminated water.

9 (d) Treatment, containment or removal of contaminants in groundwater
10 or soil.

11 7. REAL AND PERSONAL PROPERTY AND IMPROVEMENTS CONSTRUCTED OR
12 INSTALLED FROM AND AFTER DECEMBER 31, 2004 THROUGH DECEMBER 31, 2010 AND
13 OWNED BY A QUALIFIED BUSINESS UNDER SECTION 41-1516 AND USED SOLELY FOR THE
14 PURPOSE OF HARVESTING, TRANSPORTING OR THE INITIAL PROCESSING OF QUALIFYING
15 FOREST PRODUCTS REMOVED FROM QUALIFYING PROJECTS AS DEFINED IN SECTION
16 41-1516. THE CLASSIFICATION UNDER THIS PARAGRAPH IS SUBJECT TO THE FOLLOWING
17 TERMS AND CONDITIONS:

18 (a) PROPERTY MAY BE INITIALLY CLASSIFIED UNDER THIS PARAGRAPH ONLY IN
19 VALUATION YEARS 2005 THROUGH 2010.

20 (b) PROPERTY MAY NOT BE CLASSIFIED UNDER THIS PARAGRAPH FOR MORE THAN
21 FIVE YEARS.

22 (c) ANY NEW ADDITION OR IMPROVEMENT, CONSTRUCTED OR INSTALLED FROM AND
23 AFTER DECEMBER 31, 2004 THROUGH DECEMBER 31, 2010, TO PROPERTY ALREADY
24 CLASSIFIED UNDER THIS PARAGRAPH QUALIFIES SEPARATELY FOR CLASSIFICATION AND
25 ASSESSMENT UNDER THIS PARAGRAPH FOR NOT MORE THAN FIVE YEARS.

26 (d) PROPERTY THAT IS CLASSIFIED UNDER THIS PARAGRAPH SHALL NOT
27 THEREAFTER BE CLASSIFIED UNDER PARAGRAPH 2, 3, 4 OR 5 OF THIS SECTION.

28 Sec. 12. Section 42-15006, Arizona Revised Statutes, is amended to
29 read:

30 42-15006. Assessed valuation of class six property

31 The assessed valuation of class six property described in section
32 42-12006 is based on the following percentages to the full cash value or
33 limited valuation of class six property, as applicable:

34 1. Property described in section 42-12006, paragraphs 1, 2, 3, 5, and
35 6 AND 7, five per cent.

36 2. Property described in section 42-12006, paragraph 4:

37 (a) For primary property tax purposes, five per cent.

38 (b) Except as provided in subdivision (c), for secondary property tax
39 purposes, twenty-five per cent.

40 (c) If subdivision (b) is finally adjudicated to be invalid, for
41 secondary property tax purposes, five per cent.

1 Sec. 13. Section 43-1076, Arizona Revised Statutes, is amended to
2 read:

3 43-1076. Credit for employment by a healthy forest enterprise

4 A. For taxable years beginning from and after December 31, 2004
5 through December 31, 2014, a credit is allowed against the taxes imposed by
6 this title for net increases in qualified employment positions by a qualified
7 business that is certified by the department of commerce as a healthy forest
8 enterprise pursuant to section 41-1516.

9 B. Subject to subsection E of this section, the amount of the credit
10 is equal to:

11 1. One-fourth of the taxable wages paid to an employee in a qualified
12 employment position, not to exceed five hundred dollars per qualified
13 employment position, in the first year or partial year of employment.

14 2. One-third of the taxable wages paid to an employee in a qualified
15 employment position, not to exceed one thousand dollars per qualified
16 employment position, in the second year of continuous employment.

17 3. One-half of the taxable wages paid to an employee in a qualified
18 employment position, not to exceed one thousand five hundred dollars per
19 qualified employment position, in the third year of continuous employment.

20 C. To qualify for a credit under this section:

21 1. The business must employ at least ~~ten~~ THREE new FULL-TIME employees
22 in qualified employment positions in the first taxable year in which the
23 credit is claimed.

24 2. All of the employees with respect to whom a credit is claimed must
25 reside in this state on the date of hire.

26 3. A qualified employment position must meet all of the following
27 requirements:

28 (a) The position must be FULL-TIME EMPLOYMENT FOR a minimum of one
29 thousand ~~seven~~ FIVE hundred fifty hours per year ~~of full-time and permanent~~
30 ~~employment~~, UNLESS A SHORTER PERIOD OF EMPLOYMENT IS DUE TO FOREST CLOSURES
31 OR WEATHER CONDITIONS BEYOND THE TAXPAYER'S CONTROL.

32 (b) The job duties must primarily involve or directly support the
33 harvesting, transporting or the initial processing of QUALIFYING forest
34 products, ~~including biomass as defined~~ REMOVED FROM QUALIFYING PROJECTS AS
35 DEFINED in section 41-1516, into a product having commercial value.

36 ~~(c) The employment must include health insurance coverage for the~~
37 ~~employee for which the employer pays at least fifty per cent of the premium~~
38 ~~or membership cost. If the taxpayer is self-insured, the taxpayer must pay~~
39 ~~at least fifty per cent of a predetermined fixed cost per employee for an~~
40 ~~insurance program that is payable whether or not the employee has filed~~
41 ~~claims.~~

42 ~~(d)~~ (c) The employer must pay compensation at least equal to the wage
43 offer by county as computed annually by the department of economic security
44 research administration division.

1 ~~(e)~~ (d) The employee must have been employed for at least ninety days
2 during the first taxable year. An employee who is hired during the last
3 ninety days of the taxable year shall be considered a new employee during the
4 next taxable year. A qualified employment position that is filled during the
5 last ninety days of the taxable year is considered to be a new qualified
6 employment position for the next taxable year.

7 ~~(f)~~ (e) The employee has not been previously employed by the taxpayer
8 within twelve months before the current date of hire.

9 4. THE EMPLOYER SHALL PROVIDE HEALTH INSURANCE COVERAGE FOR EMPLOYEES
10 AS FOLLOWS:

11 (a) THE EMPLOYER SHALL PAY:

12 (i) AT LEAST TWENTY-FIVE PER CENT OF THE PREMIUM OR MEMBERSHIP COST OF
13 THE INSURANCE PROGRAM IN THE THIRD YEAR THE TAXPAYER CLAIMS A CREDIT UNDER
14 THIS SECTION. IF THE TAXPAYER IS SELF-INSURED, THE TAXPAYER MUST PAY AT
15 LEAST TWENTY-FIVE PER CENT OF A PREDETERMINED FIXED COST PER EMPLOYEE FOR AN
16 INSURANCE PROGRAM THAT IS PAYABLE WHETHER OR NOT THE EMPLOYEE HAS FILED
17 CLAIMS.

18 (ii) AT LEAST FORTY PER CENT OF THE PREMIUM OR MEMBERSHIP COST IN THE
19 FOURTH YEAR THE TAXPAYER CLAIMS A CREDIT UNDER THIS SECTION. IF THE TAXPAYER
20 IS SELF-INSURED, THE TAXPAYER MUST PAY AT LEAST FORTY PER CENT OF A
21 PREDETERMINED FIXED COST PER EMPLOYEE FOR AN INSURANCE PROGRAM THAT IS
22 PAYABLE WHETHER OR NOT THE EMPLOYEE HAS FILED CLAIMS.

23 (iii) AT LEAST FIFTY PER CENT OF THE PREMIUM OR MEMBERSHIP COST OF THE
24 INSURANCE PROGRAM IN THE FIFTH AND EACH SUBSEQUENT YEAR THE TAXPAYER CLAIMS A
25 CREDIT UNDER THIS SECTION. IF THE TAXPAYER IS SELF-INSURED, THE TAXPAYER
26 MUST PAY AT LEAST FIFTY PER CENT OF A PREDETERMINED FIXED COST PER EMPLOYEE
27 FOR AN INSURANCE PROGRAM THAT IS PAYABLE WHETHER OR NOT THE EMPLOYEE HAS
28 FILED CLAIMS.

29 (b) AN EMPLOYER SHALL NOT REDUCE THE AMOUNT OF HEALTH INSURANCE
30 COVERAGE PROVIDED TO EMPLOYEES BEFORE CERTIFICATION BY THE DEPARTMENT OF
31 COMMERCE.

32 D. A credit is allowed for employment in the second and third year
33 only for qualified employment positions for which a credit was allowed and
34 claimed by the taxpayer on the original first and second year tax returns.

35 E. The net increase in the number of qualified employment positions is
36 the lesser of the total number of filled qualified employment positions
37 created during the taxable year or the difference between the average number
38 of full-time employees in the current taxable year and the average number of
39 full-time employees during the immediately preceding taxable year. The net
40 increase in the number of qualified employment positions computed under this
41 subsection may not exceed two hundred qualified employment positions per
42 taxpayer each year.

43 F. A taxpayer who claims a credit under section 43-1074, 43-1077 or
44 43-1079 may not claim a credit under this section with respect to the same
45 employees.

1 G. If the allowable tax credit exceeds the income taxes otherwise due
2 on the claimant's income, or if there are no state income taxes due on the
3 claimant's income, the amount of the claim not used as an offset against
4 income taxes may be carried forward as a tax credit against subsequent years'
5 income tax liability for the period not to exceed five taxable years,
6 provided the business maintains its certification under section 41-1516.

7 H. Co-owners of a business, including partners in a partnership and
8 shareholders of an S corporation as defined in section 1361 of the internal
9 revenue code, may each claim only the pro rata share of the credit allowed
10 under this section based on the ownership interest. The total of the credits
11 allowed all such owners of the business may not exceed the amount that would
12 have been allowed for a sole owner of the business.

13 I. If a qualified business changes ownership through reorganization,
14 stock purchase or merger, the new taxpayer may claim first year credits only
15 for one or more qualified employment positions that it created and filled
16 with an eligible employee after the purchase or reorganization was complete.
17 If a person purchases a business that had qualified for first or second year
18 credits or changes ownership through reorganization, stock purchase or
19 merger, the new taxpayer may claim the second or third year credits if it
20 meets the other eligibility requirements of this section. Credits for which
21 a taxpayer qualified before the changes described in this subsection are
22 terminated and lost at the time the changes are implemented.

23 J. If, within five taxable years after first receiving a credit
24 pursuant to this section, the certification of qualification of a business is
25 terminated or revoked under section 41-1516 other than for reasons beyond the
26 control of the business as determined by the department of commerce, the
27 credits allowed the business pursuant to this section are subject to
28 ~~recapture by adding an imputed tax liability in the next taxable year as~~
29 ~~provided by this subsection. The imputed tax liability is imposed and is due~~
30 ~~regardless of whether any other tax amount is due under this title. The~~
31 ~~amount of the imputed tax is~~ PURSUANT TO THIS SUBSECTION. THIS SUBSECTION
32 APPLIES ONLY IN THE CASE OF THE TERMINATION OR REVOCATION OF A CERTIFICATION
33 OF QUALIFICATION. THIS SUBSECTION DOES NOT APPLY IF, IN ANY TAXABLE YEAR, A
34 TAXPAYER OTHERWISE DOES NOT QUALIFY FOR OR FAILS TO CLAIM THE CREDIT UNDER
35 THIS SECTION. THE RECAPTURE OF CREDITS UNDER THIS SUBSECTION IS COMPUTED BY
36 INCREASING THE AMOUNT OF TAXES IMPOSED IN THE YEAR FOLLOWING THE YEAR IN
37 WHICH THE QUALIFICATION OF THE BUSINESS WAS TERMINATED OR REVOKED BY AN
38 AMOUNT determined by multiplying the full amount of all credits previously
39 allowed under this section by a percentage determined as follows:

40 1. If the initial credit under this section was allowed for the
41 taxable year immediately preceding the taxable year in which the
42 certification of qualification of a business is terminated or revoked, one
43 hundred per cent.

2. If the initial credit under this section was allowed two taxable years before the taxable year in which the certification of qualification of a business is terminated or revoked, eighty per cent.

3. If the initial credit under this section was allowed three taxable years before the taxable year in which the certification of qualification of a business is terminated or revoked, sixty per cent.

4. If the initial credit under this section was allowed four taxable years before the taxable year in which the certification of qualification of a business is terminated or revoked, forty per cent.

5. If the initial credit under this section was allowed five taxable years before the taxable year in which the certification of qualification of a business is terminated or revoked, twenty per cent.

Sec. 14. Section 43-1162, Arizona Revised Statutes, is amended to read:

43-1162. Credit for employment by a healthy forest enterprise

A. For taxable years beginning from and after December 31, 2004 through December 31, 2014, a credit is allowed against the taxes imposed by this title for net increases in qualified employment positions by a qualified business that is certified by the department of commerce as a healthy forest enterprise pursuant to section 41-1516.

B. Subject to subsection E of this section, the amount of the credit is equal to:

1. One-fourth of the taxable wages paid to an employee in a qualified employment position, not to exceed five hundred dollars per qualified employment position, in the first year or partial year of employment.

2. One-third of the taxable wages paid to an employee in a qualified employment position, not to exceed one thousand dollars per qualified employment position, in the second year of continuous employment.

3. One-half of the taxable wages paid to an employee in a qualified employment position, not to exceed one thousand five hundred dollars per qualified employment position, in the third year of continuous employment.

C. To qualify for a credit under this section:

1. The business must employ at least ~~ten~~ THREE new FULL-TIME employees in qualified employment positions in the first taxable year in which the credit is claimed.

2. All of the employees with respect to whom a credit is claimed must reside in this state on the date of hire.

3. A qualified employment position must meet all of the following requirements:

(a) The position must be FULL-TIME EMPLOYMENT FOR a minimum of one thousand ~~seven~~ FIVE hundred fifty hours per year ~~of full-time and permanent employment~~, UNLESS A SHORTER PERIOD OF EMPLOYMENT IS DUE TO FOREST CLOSURES OR WEATHER CONDITIONS BEYOND THE TAXPAYER'S CONTROL.

(b) The job duties must primarily involve or directly support the harvesting, transporting or the initial processing of QUALIFYING forest

1 ~~products, including biomass as defined~~ REMOVED FROM QUALIFYING PROJECTS AS
2 DEFINED in section 41-1516, into a product having commercial value.

3 ~~(c) The employment must include health insurance coverage for the~~
4 ~~employee for which the employer pays at least fifty per cent of the premium~~
5 ~~or membership cost. If the taxpayer is self-insured, the taxpayer must pay~~
6 ~~at least fifty per cent of a predetermined fixed cost per employee for an~~
7 ~~insurance program that is payable whether or not the employee has filed~~
8 ~~claims.~~

9 (d) (c) The employer must pay compensation at least equal to the wage
10 offer by county as computed annually by the department of economic security
11 research administration division.

12 (e) (d) The employee must have been employed for at least ninety days
13 during the first taxable year. An employee who is hired during the last
14 ninety days of the taxable year shall be considered a new employee during the
15 next taxable year. A qualified employment position that is filled during the
16 last ninety days of the taxable year is considered to be a new qualified
17 employment position for the next taxable year.

18 (f) (e) The employee has not been previously employed by the taxpayer
19 within twelve months before the current date of hire.

20 4. THE EMPLOYER SHALL PROVIDE HEALTH INSURANCE COVERAGE FOR EMPLOYEES
21 AS FOLLOWS:

22 (a) THE EMPLOYER SHALL PAY:

23 (i) AT LEAST TWENTY-FIVE PER CENT OF THE PREMIUM OR MEMBERSHIP COST OF
24 THE INSURANCE PROGRAM IN THE THIRD YEAR THE TAXPAYER CLAIMS A CREDIT UNDER
25 THIS SECTION. IF THE TAXPAYER IS SELF-INSURED, THE TAXPAYER MUST PAY AT
26 LEAST TWENTY-FIVE PER CENT OF A PREDETERMINED FIXED COST PER EMPLOYEE FOR AN
27 INSURANCE PROGRAM THAT IS PAYABLE WHETHER OR NOT THE EMPLOYEE HAS FILED
28 CLAIMS.

29 (ii) AT LEAST FORTY PER CENT OF THE PREMIUM OR MEMBERSHIP COST IN THE
30 FOURTH YEAR THE TAXPAYER CLAIMS A CREDIT UNDER THIS SECTION. IF THE TAXPAYER
31 IS SELF-INSURED, THE TAXPAYER MUST PAY AT LEAST FORTY PER CENT OF A
32 PREDETERMINED FIXED COST PER EMPLOYEE FOR AN INSURANCE PROGRAM THAT IS
33 PAYABLE WHETHER OR NOT THE EMPLOYEE HAS FILED CLAIMS.

34 (iii) AT LEAST FIFTY PER CENT OF THE PREMIUM OR MEMBERSHIP COST OF THE
35 INSURANCE PROGRAM IN THE FIFTH AND EACH SUBSEQUENT YEAR THE TAXPAYER CLAIMS A
36 CREDIT UNDER THIS SECTION. IF THE TAXPAYER IS SELF-INSURED, THE TAXPAYER
37 MUST PAY AT LEAST FIFTY PER CENT OF A PREDETERMINED FIXED COST PER EMPLOYEE
38 FOR AN INSURANCE PROGRAM THAT IS PAYABLE WHETHER OR NOT THE EMPLOYEE HAS
39 FILED CLAIMS.

40 (b) AN EMPLOYER SHALL NOT REDUCE THE AMOUNT OF HEALTH INSURANCE
41 COVERAGE PROVIDED TO EMPLOYEES BEFORE CERTIFICATION BY THE DEPARTMENT OF
42 COMMERCE.

43 D. A credit is allowed for employment in the second and third year
44 only for qualified employment positions for which a credit was allowed and
45 claimed by the taxpayer on the original first and second year tax returns.

1 E. The net increase in the number of qualified employment positions is
2 the lesser of the total number of filled qualified employment positions
3 created during the taxable year or the difference between the average number
4 of full-time employees in the current taxable year and the average number of
5 full-time employees during the immediately preceding taxable year. The net
6 increase in the number of qualified employment positions computed under this
7 subsection may not exceed two hundred qualified employment positions per
8 taxpayer each year.

9 F. A taxpayer who claims a credit under section 43-1161, 43-1165 or
10 43-1167 may not claim a credit under this section with respect to the same
11 employees.

12 G. If the allowable tax credit exceeds the income taxes otherwise due
13 on the claimant's income, or if there are no state income taxes due on the
14 claimant's income, the amount of the claim not used as an offset against
15 income taxes may be carried forward as a tax credit against subsequent years'
16 income tax liability for the period not to exceed five taxable years,
17 provided the business maintains its certification under section 41-1516.

18 H. Co-owners of a business, including partners in a partnership, may
19 each claim only the pro rata share of the credit allowed under this section
20 based on the ownership interest. The total of the credits allowed all such
21 owners of the business may not exceed the amount that would have been allowed
22 for a sole owner of the business.

23 I. If a qualified business changes ownership through reorganization,
24 stock purchase or merger, the new taxpayer may claim first year credits only
25 for one or more qualified employment positions that it created and filled
26 with an eligible employee after the purchase or reorganization was
27 complete. If a person purchases a business that had qualified for first or
28 second year credits or changes ownership through reorganization, stock
29 purchase or merger, the new taxpayer may claim the second or third year
30 credits if it meets the other eligibility requirements of this
31 section. Credits for which a taxpayer qualified before the changes described
32 in this subsection are terminated and lost at the time the changes are
33 implemented.

34 J. If, within five taxable years after first receiving a credit
35 pursuant to this section, the certification of qualification of a business is
36 terminated or revoked under section 41-1516 other than for reasons beyond the
37 control of the business as determined by the department of commerce, the
38 credits allowed the business pursuant to this section are subject to
39 ~~recapture by adding an imputed tax liability in the next taxable year as~~
40 ~~provided by this subsection. The imputed tax liability is imposed and is due~~
41 ~~regardless of whether any other tax amount is due under this title. The~~
42 ~~amount of the imputed tax is~~ PURSUANT TO THIS SUBSECTION. THIS SUBSECTION
43 APPLIES ONLY IN THE CASE OF THE TERMINATION OR REVOCATION OF A CERTIFICATION
44 OF QUALIFICATION. THIS SUBSECTION DOES NOT APPLY IF, IN ANY TAXABLE YEAR, A
45 TAXPAYER OTHERWISE DOES NOT QUALIFY FOR OR FAILS TO CLAIM THE CREDIT UNDER

1 THIS SECTION. THE RECAPTURE OF CREDITS UNDER THIS SUBSECTION IS COMPUTED BY
2 INCREASING THE AMOUNT OF TAXES IMPOSED IN THE YEAR FOLLOWING THE YEAR IN
3 WHICH THE QUALIFICATION OF THE BUSINESS WAS TERMINATED OR REVOKED BY AN
4 AMOUNT determined by multiplying the full amount of all credits previously
5 allowed under this section by a percentage determined as follows:

6 1. If the initial credit under this section was allowed for the
7 taxable year immediately preceding the taxable year in which the
8 certification of qualification of a business is terminated or revoked, one
9 hundred per cent.

10 2. If the initial credit under this section was allowed two taxable
11 years before the taxable year in which the certification of qualification of
12 a business is terminated or revoked, eighty per cent.

13 3. If the initial credit under this section was allowed three taxable
14 years before the taxable year in which the certification of qualification of
15 a business is terminated or revoked, sixty per cent.

16 4. If the initial credit under this section was allowed four taxable
17 years before the taxable year in which the certification of qualification of
18 a business is terminated or revoked, forty per cent.

19 5. If the initial credit under this section was allowed five taxable
20 years before the taxable year in which the certification of qualification of
21 a business is terminated or revoked, twenty per cent.

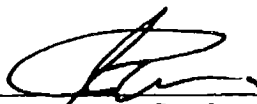
APPROVED BY THE GOVERNOR MAY 11, 2005.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MAY 12, 2005.

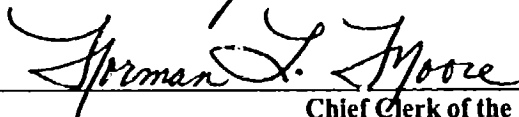
Passed the House May 3, 2005,

by the following vote: 37 Ayes,

20 Nays, 3 Not Voting



Speaker of the House



Chief Clerk of the House

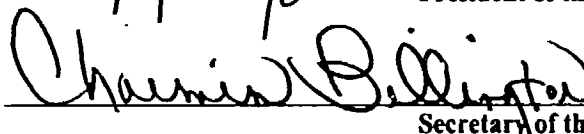
Passed the Senate March 10, 2005,

by the following vote: 19 Ayes,

9 Nays, 2 Not Voting



President of the Senate



Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill was received by the Governor this

_____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary to the Governor

Approved this _____ day of

_____, 20____,

at _____ o'clock _____ M.

Governor of Arizona

S.B. 1283

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State

this _____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary of State

SENATE CONCURS IN HOUSE AMENDMENTS
AND FINAL PASSAGE

Passed the Senate May 4, 2005,

by the following vote: 23 Ayes,

6 Nays, 1 Not Voting

Klu Bennett
President of the Senate
Charmian Billington
Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill was received by the Governor this

5th day of May, 2005

at 8:15 o'clock a. M.

Wennifer Ibarra
Secretary to the Governor

Approved this 11 day of

May, 2005,

at 5⁰⁰ o'clock P. M.

[Signature]
Governor of Arizona

S.B. 1283

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State

this 12 day of May, 2005,

at 9:16 o'clock A. M.

[Signature]
Secretary of State